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A PROFESSIONAL ASSOCIATION

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December 19, 2003

RECEIVED
2003 DEC 19 PM 3:50
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TRA DOCKET ROOM

Joe Werner
Telecommunications Chief
Tennessee Regulatory Authority
460 James Robertson Pkwy.
Nashville, TN 37243-0505

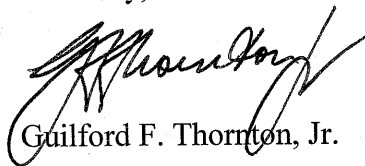
Re: Application of BellSouth Long Distance, Inc. – TRA Docket No. 03-00602

Dear Joe:

On behalf of BellSouth Long Distance, Inc. ("BSLD"), I am enclosing with this letter responses to the questions and data requests contained in your letter of December 5, 2003. Consistent with my voice message of yesterday, BSLD requests that all attachments as well as the response to Request #2 be kept confidential due to the proprietary nature of the information contained therein.

Should you have any questions or require anything further at this time, please do not hesitate to contact me.

Sincerely,



Guilford F. Thornton, Jr.

GFT/sef

cc: Harris Anthony

REQUEST:

In its Application, BellSouth Long Distance, Inc. ("BSLD") has stated that it is submitting the 2002 SEC Form 10-K of its parent company, BellSouth Corporation ("BellSouth"), in support of its financial qualifications. Pursuant to 47 USC Section 272 (b) (2) Structural and Transactional Requirements. The separate affiliate required by this section – (2) shall maintain books, records, and accounts in the manner prescribed by the Commission which shall be separate from the books, records, and accounts maintained by the Bell operating company of which it is an affiliate. Please provide financial statements for BellSouth Long Distance, Inc. including balance sheet, income statement and statement of cash flows for year end 2002 and the most recent interims for 2003.

RESPONSE:

BSLD is a wholly owned subsidiary of BellSouth Corporation. As such, BSLD, while maintaining separate books and records as required by law, does not publish separate stand-alone financial statements. In an effort to comply with the TRA's request, BSLD is attaching the stand-alone income statement (*see Attachment 2.A*) and balance sheet (*see Attachment 2.B*) that were produced specifically for the Section 272 audit recently conducted on BSLD. The income statement covers the audit period of June 1, 2002 – February 28, 2003 and the balance sheet is as of February 28, 2003. No cash flow statement was produced or is available.

REQUEST: Please provide a copy of BellSouth Long Distance, Inc.'s certificate to do business in the State of Tennessee. A copy of the application submitted to the Secretary of State's Office was included in your Application.

RESPONSE: *See Attachment 3*, BellSouth Long Distance, Inc.'s certificate to do business in the State of Tennessee.

REQUEST: Will any BellSouth Corporate entities such as BellSouth Carrier Professional Services, Inc. perform operations, installation or maintenance functions for BSLD?

RESPONSE: BellSouth Carrier Professional Services, Inc. ("BCPS") is the only BellSouth corporate entity that performs and will perform operations, installation and maintenance functions for BSLD. BCPS is treated as if it were a Section 272 separate affiliate for all purposes.

REQUEST: Will BSLD jointly own any fixed assets with BellSouth or any of BellSouth's affiliates? If so, please explain the extent of these fixed assets.

RESPONSE: No.

REQUEST: Will BSLD obtain credit under any arrangement that will permit a creditor, upon default, to have recourse to the assets of BellSouth Corporation or any of BellSouth's affiliates?

RESPONSE: No.

REQUEST: Please describe written procedures and/or training materials/classes to be used to educate BSLD employees of 47 U.S.C. § 272 requirements.

RESPONSE: BellSouth Long Distance, Inc. requires all employees to complete an online Section 272 Compliance Training course on an annual basis (*see Attachment 7.E*). New employees are required to complete this training within 30-days of their hire date.

BellSouth Long Distance, Inc. also maintains an internal intranet website containing easily accessible information concerning Section 272 (*see Attachment 7.F*) for its employees' use.

For employees who may engage in transactions with BellSouth Telecommunications, Inc., BellSouth Long Distance, Inc. has a written "Process for Section 272 Transactions". This process, and its "Process Flow for Section 272 Transactions" are posted on BellSouth's internet website located at <http://bellsouthcorp.com/policy/transactions/> (*see Attachment 7.A*). This process details the steps that are to be taken when BellSouth Long Distance, Inc. and BellSouth Telecommunications, Inc. enter in to an agreement for services (*see Attachment 7.B.1 and 7B.2*).

Additionally, BellSouth Long Distance, Inc. has a written "Process for Completed or Terminated Section 272 Transactions" in place. This process, and its "Process Flow for Completed or Terminated Section 272 Transactions" are posted on BellSouth's internet website located at <http://bellsouthcorp.com/policy/transactions/>. This process details the steps that are to be taken when BellSouth Long Distance, Inc. or BellSouth Telecommunications, Inc. determine that an active agreement for services is to be terminated prior to the scheduled termination date or will complete as scheduled within the term of the agreement (*see Attachment 7.C.1 and 7.C.2*).

BellSouth Long Distance, Inc. also has an internal process for ensuring that Section 272 transactions are posted to the BellSouth internet website within a 10-day time period as specified by the Federal Communications Commission (*see Attachment 7.D*).

REQUEST: **Mr. Rex Adams is noted in BSLD's application as one of BSLD's senior management team. Please provide a more detailed explanation of Rex Adams' position at BSLD and his relationship to BellSouth Corporation. Is Mr. Adams an employee of BellSouth Corporation or BellSouth Long Distance, Inc.?**

RESPONSE: Rex Adams is head of the BellSouth Long Distance Services business unit. BellSouth Long Distance Services is a business unit or group internal to BellSouth Corporation. As head of the BellSouth Long Distance Services business unit, Mr. Adams leads and has responsibility for the operations of BellSouth Long Distance, Inc. and BellSouth Carrier Professional Services, Inc. Janet Kibler, president of BellSouth Long Distance, Inc., and Joe Gilman, president of BellSouth Carrier Professional Services, Inc., report to Mr. Adams. Rex Adams is a BellSouth Corporation employee. Mr. Adams is the sole director of BSLD.

REQUEST: **Mr. Joe Gilman is noted in BSLD's application as one of BSLD's senior management team. Please provide an explanation of Joe Gilman's position at BSLD and his relationship to BellSouth Corporation. Is Mr. Gilman an employee of BellSouth Corporation of BellSouth Long Distance, Inc.?**

RESPONSE: Joe Gilman is president of BellSouth Carrier Professional Services, Inc. ("BCPS") which is the operations arm of the BellSouth Long Distance Services business unit. Mr. Gilman is an employee of BellSouth Carrier Professional Services, Inc.

REQUEST: Does BSLD maintain separate officers, directors and employees from BellSouth Corporation and/or any BellSouth Corporation's affiliates?

RESPONSE: BellSouth Long Distance, Inc. maintains separate Officers, Directors and employees from BellSouth Telecommunications, Inc., an affiliate of BellSouth Corporation.

REQUEST: Will there be any shared or common costs between BSLD and its parent or any of the BellSouth Corporation affiliates? If so, is there a cost allocation plan and written procedures in place to allocate any shared or common costs between BSLD and its parent or any of the BellSouth Corporation affiliates? If so, please provide a copy of the written procedures. If not, please explain?

RESPONSE: Yes, BellSouth Corporation does allocate some common costs to BSLD. The cost allocation plan is described in the attached "BSHQ Allocation/Project Accounting Integrated Process" document (*see Attachment 11*).

REQUEST: Will the TRA be provided access to the books and records of both BSLD and BellSouth Corporation to determine if the company is in compliance with the cost allocation plan and 47 U.S.C. § 272 requirements?

RESPONSE: BellSouth Telecommunications, Inc.'s ("BST") cost allocation plan ("Cost Allocation Manual" or "CAM") is a public document. The TRA, like all regulatory authorities, will have access to BST's books and records. It is BST, rather than BellSouth Corporation, that is subject to a cost allocation plan and §272 requirements. BellSouth Corporation is not a party to the TRA's examination and, therefore, we will not be responding to inquiries that seek information from parent and affiliate companies.

REQUEST: Will the cost allocation plan be audited by an independent auditor? If so, how often? Will a separate opinion be issued on the cost allocation plan.

RESPONSE: BellSouth Telecommunications, Inc. ("BST") annually files its cost allocation manual ("CAM") with the FCC for review. BST's Joint Cost Order Audit, which is completed annually, covers BST's CAM processes as reflected on ARMIS Report 43-03. The auditor's report confirms that the allocations used in BST's ARMIS Report 43-03 are in compliance with the CAM, as well as the FCC's Cost Orders, and the FCC's published rules and regulations, in force as of the audit date.

BellSouth Long Distance, Inc.
Income Statement
For the nine-month period ended February 28, 2003

	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	PTD
Operating Revenue										
Wireline Revenue										
Long Distance - Intrastate	330,320.81	652,357.00	852,532.25	759,959.73	1,215,002.15	1,595,893.10	2,105,866.78	2,774,687.29	3,280,845.35	13,567,464.46
41211 Intrastate Long Distance Revenue	330,320.81	652,357.00	852,532.25	759,959.73	1,215,002.15	1,595,893.10	2,105,866.78	2,774,687.29	3,280,845.35	13,567,464.46
Total Long Distance - Intrastate										
Long Distance - Interstate	576,452.04	1,316,828.84	2,247,435.27	3,120,882.20	5,134,983.42	6,542,841.04	8,578,548.30	11,001,411.92	12,827,265.55	51,346,748.58
41231 Interstate Long Distance Revenue	576,452.04	1,316,828.84	2,247,435.27	3,120,882.20	5,134,983.42	6,542,841.04	8,578,548.30	11,001,411.92	12,827,265.55	51,346,748.58
Total Long Distance - Interstate										
Total Long Distance										
Other Long Distance	4,091.75	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,091.75
41251 Directory Assistance Revenue (LD)	864,124.05	2,221,177.78	1,538,888.41	3,023,711.07	3,401,282.50	2,006,972.88	5,072,238.30	4,883,503.00	2,823,438.08	25,835,314.07
41232 Private Lines Revenue	568,843.88	783,290.35	558,563.82	445,349.39	379,261.55	234,018.81	(188,979.57)	263,407.24	301,210.90	3,344,966.37
41234 Clearing House Fee (B&C)	103,825.92	210,640.37	155,154.92	127,486.57	76,749.62	37,249.27	56,106.78	6,468.85	6,259.91	779,942.21
41235 International Long Distance Revenue	231,277.70	681,536.00	798,732.72	1,208,708.34	1,218,476.79	1,452,919.08	1,831,022.82	3,051,695.04	4,516,241.91	14,981,110.40
41236 800 Toll Free Revenue	21,065,261.25	20,930,579.93	21,173,901.85	16,298,908.04	13,985,855.37	11,953,738.91	10,032,200.66	10,058,266.88	10,111,253.11	135,609,986.00
Total Other Long Distance	22,837,424.55	24,927,224.43	24,225,241.72	21,104,163.41	19,061,605.83	15,684,898.95	16,802,588.99	18,263,361.01	17,758,901.91	180,565,410.90
Total Long Distance	23,744,197.40	26,796,410.27	27,325,209.24	24,985,005.34	25,411,591.40	23,823,633.09	27,487,004.07	32,039,460.22	33,867,112.81	245,479,623.84
Other Wireline										
41940 Corporate Communications	5,520,231.28	6,278,496.62	6,711,237.98	4,863,767.86	4,673,921.96	4,819,080.17	5,602,037.00	5,791,633.35	5,158,097.77	49,418,502.99
41999 Other Wireline Revenue	141,031.79	169,580.16	467,943.98	193,099.96	641,218.40	1,432,827.34	1,545,848.99	1,567,786.27	1,690,043.20	7,849,380.09
Total Other Wireline	5,661,263.07	6,448,076.78	7,179,181.96	5,056,867.82	5,315,140.36	6,251,907.51	7,147,885.99	7,359,419.62	6,848,140.97	57,267,883.08
Total Wireline Revenue	29,405,460.47	33,244,486.05	34,504,391.20	30,041,873.16	30,726,731.76	30,075,540.60	34,634,890.06	39,398,879.84	40,715,253.78	302,747,506.92
Wireless										
42999 Other Wireless Revenue	11,085,103.73	11,818,311.71	12,391,920.33	11,818,295.08	12,282,430.99	12,150,108.53	12,185,426.21	12,155,676.11	11,930,795.33	107,808,068.02
Total Wireless	11,085,103.73	11,818,311.71	12,391,920.33	11,818,295.08	12,282,430.99	12,150,108.53	12,185,426.21	12,155,676.11	11,930,795.33	107,808,068.02
Equipment										
46105 Wireline Equipment Revenue	750,625.54	937,159.62	1,065,179.55	87,660.04	1,147,014.70	1,173,263.22	6,944,732.92	2,317,342.69	2,623,418.83	17,046,397.11
Total Equipment	750,625.54	937,159.62	1,065,179.55	87,660.04	1,147,014.70	1,173,263.22	6,944,732.92	2,317,342.69	2,623,418.83	17,046,397.11
Other Revenue										
49999 Other Miscellaneous Revenues	0.00	0.00	0.00	0.00	0.00	1.53	(1.53)	0.00	0.00	0.00
Total Other Revenue	0.00	0.00	0.00	0.00	0.00	1.53	(1.53)	0.00	0.00	0.00
Total Operating Revenue	41,241,189.74	45,999,957.38	47,961,491.08	41,947,828.28	44,136,177.45	43,398,913.88	53,775,047.66	53,871,898.64	55,269,467.94	427,601,972.05
Cost of Goods Sold										
Wireline Cost of Service	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cost of Labor										
Overhead Cost										
Travel and Meals										
51213 Meals & Entertainment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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 Contains Private and/or Proprietary Information.
 May Not Be Used or Disclosed Outside of BellSouth Companies
 Except Pursuant to a Written Agreement.

Bellsouth Long Distance, Inc.
Income Statement
For the nine-month period ended February 28, 2003

	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	PTD
Total Travel and Meals	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Wireline COGS										
51399 Other Wireline Cost of Goods Sold	4,828,391.95	5,395,693.68	6,027,450.26	1,981,849.61	4,567,566.31	5,269,974.28	4,859,642.97	5,585,907.99	5,082,680.88	43,599,157.93
Total Other Wireline COGS	4,828,391.95	5,395,693.68	6,027,450.26	1,981,849.61	4,567,566.31	5,269,974.28	4,859,642.97	5,585,907.99	5,082,680.88	43,599,157.93
Total Wireline Cost of Services	4,828,391.95	5,395,693.68	6,027,450.26	1,981,849.61	4,567,566.31	5,269,974.28	4,859,642.97	5,585,907.99	5,082,680.88	43,599,157.93
Cost of Long Distance										
56005 IntraState Long Distance Costs	194,486.06	706,577.23	813,810.50	227,327.20	867,509.33	1,726,734.06	1,157,670.13	1,730,910.00	1,992,539.00	9,416,563.51
56015 Interstate Long Distance Costs	225,259.25	750,091.24	1,159,227.73	1,495,473.34	1,815,966.19	1,543,505.94	2,455,323.21	2,943,970.11	3,497,630.31	15,886,447.32
56025 International Long Distance Costs	403,419.64	634,256.68	600,748.71	606,434.43	558,125.35	198,276.93	593,193.63	1,174,068.39	1,826,714.29	6,555,238.05
56035 Directory Assistance Costs	37,108.24	4,000.00	23,933.77	8,663.60	4,193.61	4,000.00	5,334.49	4,799.97	6,643.58	98,677.46
56040 Wholesale Cost	18,286,337.62	19,004,699.74	19,622,715.08	14,528,729.75	11,718,450.80	9,734,618.94	10,077,007.27	8,216,989.98	7,787,842.78	118,957,382.66
56045 Complex Business Cost	1,243,852.15	1,127,976.95	1,929,594.06	1,163,077.48	952,079.98	1,236,693.32	1,681,506.66	1,737,396.38	2,475,585.39	13,555,962.57
56050 Private Line Cost	1,679,074.70	1,497,923.34	1,595,198.10	3,018,107.77	1,762,186.44	3,499,621.61	2,320,471.01	5,916,406.31	2,593,523.29	23,904,512.37
56099 Other Long Distance Costs	39,494.31	25,289.67	95,951.28	61,550.11	68,888.09	4,462.38	194,764.77	193,021.33	184,039.84	1,001,461.78
Total Cost of Long Distance	22,089,031.97	23,750,814.85	25,841,180.13	21,115,363.68	17,767,399.99	17,949,113.18	18,475,271.17	21,919,562.47	20,498,518.48	189,406,255.92
Other Miscellaneous COGS										
59399 Miscellaneous Cost of Goods Sold	6,216,745.87	8,806,812.65	8,966,191.70	11,649,717.06	6,818,112.41	8,637,562.39	9,074,448.67	7,979,503.30	9,399,101.20	77,548,195.25
Total Other Miscellaneous COGS	6,216,745.87	8,806,812.65	8,966,191.70	11,649,717.06	6,818,112.41	8,637,562.39	9,074,448.67	7,979,503.30	9,399,101.20	77,548,195.25
Total Cost of Goods Sold	33,134,169.79	37,953,321.18	40,834,822.09	34,746,930.35	29,163,078.71	31,856,649.85	32,409,362.81	35,484,973.76	34,980,300.56	310,553,609.10
Operating Expenses										
Salaries and Wages										
61112 Management Wages & Salaries-Regular	1,721,810.37	1,757,902.41	1,707,439.04	1,683,526.25	1,622,672.19	1,661,732.36	1,694,621.25	1,627,040.13	1,678,221.63	15,134,965.63
61113 Management Wages & Salaries-OverTime	1,300.25	1,856.48	1,165.47	1,002.47	605.67	699.37	788.40	1,017.53	1,027.35	9,462.99
61115 Management Wages & Salaries-Bonuses & Awards	383,974.63	601,852.31	345,975.24	(1,904,682.55)	198,657.96	1,790,915.77	528,486.04	227,429.85	233,152.69	2,365,761.94
61116 Management salaries-Other	11,011.17	11,011.17	60,750.60	120,468.77	15,998.31	15,854.08	17,137.85	208,771.42	17,762.42	479,443.66
61121 Non-management Wages & Salaries-Commissions	101,400.00	112,500.00	190,000.00	170,000.00	170,000.00	(266,481.76)	85,310.00	114,326.54	138,800.00	815,854.78
61122 Non-management salaries-Regular	3,984.00	4,195.20	3,851.04	3,647.52	4,477.44	3,890.80	4,065.60	2,402.40	5,544.00	36,048.00
61123 Non-management Wages & Salaries-OverTime	55.50	85.50	0.00	83.70	69.30	0.00	0.00	0.00	0.00	294.00
61123 Non-management Wages & Salaries-Bonuses & Awards	941.23	98.80	96.20	98.80	60.06	60.06	60.06	80.08	118.04	1,613.33
61199 Payroll Clearing Account - Project Accounting	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Salaries and Wages	2,204,245.02	2,489,501.87	2,368,995.76	(5,573.21)	2,012,450.83	3,206,660.68	2,330,469.20	2,181,067.95	2,075,626.13	18,863,444.33
Pension and Benefits										
61211 Management Pension	(57,249.99)	(57,249.99)	(298,583.38)	(87,416.67)	(87,416.67)	(87,416.67)	(87,416.67)	(65,167.00)	(65,167.00)	(893,084.04)
61213 Healthcare Plans - Active	152,159.65	207,491.29	308,919.83	223,968.29	254,107.21	246,340.94	300,188.09	301,592.74	307,564.41	2,302,622.55
61214 Life Insurance	(10,172.78)	14,879.00	2,338.90	2,310.54	583.52	1,956.30	1,956.30	4,006.46	1,707.72	21,589.00
61216 Employee Savings Plan-Bellsouth Retirement Savings P	14,879.00	14,879.00	14,879.00	14,879.00	14,879.00	14,879.00	14,879.00	14,879.00	14,879.00	14,879.00
61217 Employee Savings Plan-Bellsouth Savings and Security	43,161.08	67,409.01	67,375.17	67,214.76	67,367.09	67,367.09	69,912.83	72,104.96	72,104.96	594,017.05
61218 Employee Stock Purchase Plans - ESPP	4,643.98	4,580.32	4,398.38	5,108.30	3,792.00	3,675.75	4,761.86	3,303.75	3,216.25	37,448.49
61219 Employee Stock Purchase Plans - ESPP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
61221 Post-Retirement Benefits	95,166.66	95,166.66	(164.31)	83,250.00	83,250.00	83,250.00	83,250.00	87,667.00	87,667.00	698,503.01
61223 Disability-short term	7,807.46	7,786.10	7,759.11	7,702.89	22,879.38	22,137.47	40,623.21	21,554.90	23,543.34	161,883.86
61224 Disability-long term	11.69	(0.84)	(8.06)	(0.79)	67.14	34.73	(97.23)	(168.73)	(44.47)	(206.60)
61225 Key Manager Benefits	750.00	2,410.00	3,167.83	0.00	4,000.00	750.00	575.00	1,050.00	169.00	12,871.83
61228 Management Compensated Absences	24,856.25	10,885.00	0.00	(19,814.15)	570.80	(31,839.00)	(16,942.55)	11,728.05	(19,300.90)	(39,856.40)
61230 Tuition Aid/ National Merit Expense	15,932.28	0.00	0.00	4,083.32	0.00	0.00	0.00	0.00	0.00	30,515.60
61232 Restricted Stock Compensation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	149,860.18	149,860.18	299,720.36
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	43,727.92	43,727.92

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BeilSouth Long Distance, Inc.
Income Statement
For the nine-month period ended February 28, 2003

	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	PTD
61289 Other Employee Benefits	50,245.50	16,739.42	21,881.76	18,971.05	18,589.96	25,335.65	37,193.37	35,125.10	20,877.04	247,089.75
Total Pension and Benefits	327,310.98	372,096.06	117,055.42	305,377.60	371,287.01	330,219.48	434,004.11	622,667.27	636,825.21	3,516,943.14
Payroll Taxes										
61311 FICA - Employer Portion	121,723.66	133,676.65	111,502.97	100,645.46	94,950.27	93,933.30	77,252.43	152,906.10	130,159.75	1,016,750.61
61312 Federal Unemployment	461.23	329.97	94.73	73.79	143.83	352.34	434.01	12,308.16	2,535.53	16,733.59
61313 State Unemployment	0.01	0.00	(240.40)	0.01	0.00	488.06	1,082.88	3,354.82	284.85	4,980.23
Total Payroll Taxes	122,184.92	134,006.62	111,357.30	100,719.26	95,094.10	94,783.70	78,769.32	168,569.08	132,960.13	1,038,444.43
Other Employee Related Expenses										
62105 Airfare	29,970.31	24,736.33	32,382.36	23,211.72	28,010.00	23,369.50	27,468.76	20,727.68	25,184.25	235,060.91
62115 Lodging	28,661.94	20,888.95	26,168.55	10,983.93	50,622.87	19,473.66	24,140.30	18,679.38	19,186.24	218,805.72
62125 Meals and Entertainment	23,385.48	15,555.86	25,273.56	9,385.23	74,134.77	25,286.16	21,843.06	11,567.55	10,831.14	217,232.81
62145 Other Travel	2,980.59	1,446.69	2,544.91	976.55	1,151.80	1,555.40	2,182.82	17,735.32	2,117.84	32,691.72
62155 Auto Allowance/Vehicle Expense	19,309.32	17,899.91	22,347.71	16,410.72	23,355.52	19,634.36	18,591.16	19,315.00	17,727.89	174,591.59
62215 Relocation	0.00	0.00	0.00	8,371.00	0.00	0.00	33,126.61	3,197.30	7,362.00	52,056.91
62235 Training and Seminars	7,781.86	2,772.06	(1,882.08)	12,860.00	3,030.00	10,728.19	5,647.97	550.24	1,500.00	42,988.24
62237 Meetings & Conferences	27,819.92	(166,287.36)	1,622.24	410.47	28,770.50	30.00	3,084.88	8,536.31	42,272.58	(53,740.36)
62305 Subscriptions	90.79	681.01	1,090.86	208.26	1,289.89	629.44	1,511.58	119.30	82,731.89	88,334.12
62315 Memberships/Dues - Non-Professional	0.00	190.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	190.00
62325 Memberships/Dues - Professional	700.00	1,834.00	6,888.00	1,081.00	379.00	(45.00)	0.00	0.00	0.00	10,847.00
62345 Corporate Owned Life Insurance (COLI)	0.00	0.00	0.00	0.00	657.67	164.42	164.42	164.42	164.42	1,315.35
62355 BSLLP Expense	0.00	0.00	0.00	(8,157.33)	0.00	8,157.33	0.00	0.00	0.00	0.00
62884 TFE Clearing Account - Project Accounting	(168,016.92)	86,076.01	(32,675.03)	6,891.09	(59,292.07)	0.00	0.00	0.00	0.00	(168,016.92)
62895 Incentive & Motivation	1,112.61	111.30	32.07	220.00	873.91	390.00	215.72	160.63	3,305.34	6,411.58
62999 Employee Related - Other	(11,280.65)	(199,455.55)	1,156.51	32,755.76	3,071.29	3,216.45	1,400.59	73.88	1,173.08	(167,888.64)
Total Other Employee Related Expenses	(37,504.86)	(194,550.79)	84,959.76	115,609.40	156,035.15	112,589.91	139,377.67	100,807.01	213,556.77	680,880.03
Facilities Expense										
63103 Interconnect expense	553,510.00	9,775.35	3,569.04	1,919.04	0.00	113,501.13	0.00	0.00	0.00	682,274.56
63105 Rent Expense - Facilities	(1,571,106.41)	331,408.32	380,385.72	210,599.21	205,832.78	200,812.26	213,745.96	211,037.74	400,947.56	593,663.04
63107 Utilities	141,584.20	109,312.62	80,222.17	53,199.13	148,809.78	46,117.39	199,021.00	210,349.41	45,413.81	1,034,029.51
63108 Material and Supplies	0.00	0.00	0.00	0.00	0.00	0.00	113,515.78	(5,154.06)	7,966.61	116,328.33
63109 Furniture and equipment	1,082.79	14,590.82	12,152.74	4,832.35	18,346.01	12,564.76	9,088.23	8,966.21	337.36	81,871.27
63110 Infrastructure	2,244,735.39	12,220,986.63	919,839.90	1,406,166.51	379,220.75	1,588,188.99	769,122.98	128,780.42	290,790.99	19,947,812.55
63115 Network Facilities - Rent	370,135.97	(39,540.44)	270,556.37	264,078.46	286,507.76	262,661.90	249,489.96	309,263.90	218,346.49	2,167,200.37
Total Facilities Expense	1,739,951.94	12,846,233.30	1,676,725.94	1,940,794.70	1,008,717.08	2,223,846.43	1,553,983.81	863,223.62	963,802.82	24,617,279.64
Maintenance Expenses										
63201 Building maintenance	3,894.85	48,343.49	12,677.95	(22,206.75)	28,187.68	8,112.77	18,897.26	2,614.82	2,420.06	102,942.13
63202 Office furniture and equipment maintenance	0.00	0.00	140.12	(8.75)	4,379.78	1,386.11	282.51	341.37	271.37	6,772.51
63203 Hardware maintenance	67,402.37	138,157.26	165,550.65	2,363.72	3,891.07	23,244.86	55,606.30	622,155.82	39,758.93	1,118,130.98
63209 Other maintenance	(104,097.72)	286,378.90	234,216.78	801,373.44	183,991.61	546,736.41	642,235.61	470,768.04	353,891.52	3,415,982.62
	866,109.94	(833,514.01)	(15,214.05)	0.00	72,059.99	24,435.33	70,098.82	39,369.78	6,732.92	230,078.72
Total Maintenance Expenses	833,309.44	(360,634.36)	397,371.45	781,521.66	292,510.13	603,915.48	787,100.50	1,135,249.83	403,064.83	4,873,408.96
Advertising Expenses										
64115 Newspaper advertising	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
64125 Television advertising	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,450.00	1,450.00
64135 Direct mail advertising	0.00	0.00	0.00	0.00	0.00	0.00	8,375.56	0.00	0.00	8,375.56
64175 Product Promotion	0.00	3,050.00	8,242.00	0.00	20,035.60	270,448.45	108,463.77	136,894.24	(10,700.00)	536,424.06
64185 Other advertising	5,796,154.22	900,928.67	(2,058,499.69)	1,997,582.48	3,346,089.63	6,979,736.14	9,771,653.02	5,845,364.72	1,515,382.24	34,032,421.43
64186 Sponsorship	0.00	0.00	0.00	0.00	3,368.72	25,073.90	0.00	1,000.00	15,898.60	45,359.22
64195 Advertising production	18,390.32	18,465.17	26,554.78	6,855.00	12,052.71	4,986.88	(39,651.38)	(19,357.94)	294,808.69	323,104.23
Total Advertising Expenses	5,814,544.54	922,443.84	(2,023,702.91)	1,904,437.48	3,381,576.66	7,280,265.37	9,788,940.97	6,061,891.02	1,816,837.53	34,947,134.50

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BellSouth Long Distance, Inc.
Income Statement
For the nine-month period ended February 28, 2003

	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	PTD
Marketing Expenses										
64405 Market research	44,597.65	0.00	0.00	0.00	0.00	41,958.04	0.00	0.00	0.00	86,555.69
64415 Market Expense-Channel Costs	0.00	0.00	0.00	1,879,863.35	988,646.46	1,345,546.43	994,483.17	2,073,017.70	2,400,894.09	9,662,451.20
64435 External Commissions	0.00	0.00	0.00	953,248.34	3,273,728.52	6,019,445.19	3,457,728.52	3,076,586.77	2,600,000.00	19,380,210.41
64499 Other marketing expense	112,513.44	98,166.00	55,000.00	55,000.00	75,762.38	55,000.00	55,000.00	304,784.44	2,764,048.00	3,576,274.26
Total Marketing Expenses	157,111.09	98,166.00	55,000.00	2,898,111.69	4,337,610.49	7,461,949.66	4,507,211.69	5,454,388.65	7,764,942.09	32,724,491.56
Data Processing Expenses										
65305 Equipment Rents and Leases	1,624.98	0.00	0.00	0.00	47,821.74	48,586.30	285.70	116,932.28	94,991.75	310,242.75
65325 Contracted Services-Other	44,944.80	17,788.87	29,110.00	39,543.68	0.00	0.00	300.12	23,250.00	0.00	154,937.47
65335 Purchased Software	18,363.78	(32,681.36)	31,276.09	4,562.06	40,995.54	133.43	54,309.31	28,698.19	13,444.66	159,102.72
65399 Data Processing Expense-Other	348,801.65	(1,145,705.47)	70,292.84	180,066.21	29,786.13	126,904.03	55,218.38	(4,607.43)	212,058.20	(127,215.26)
65929 Data Processing Expense-Direct	409,591.75	639,917.81	641,144.50	550,823.87	1,924,429.60	986,268.29	2,330,507.56	1,140,743.49	659,481.10	9,234,507.97
65933 Allocation for General Overhead Costs (BTG Only)	309,862.50	296,167.40	50,613.78	1,289,806.47	501,931.54	535,129.28	699,857.49	839,363.29	691,313.20	5,216,044.95
659310 Ongoing Proj Accty Exp (BTG Only)	3,795,291.85	(2,324,046.84)	1,516,226.36	824,672.45	459,383.49	801,180.46	2,953,876.34	505,481.76	183,765.08	8,705,810.95
Total Data Processing Expenses	4,918,481.51	(2,546,559.59)	2,338,623.57	2,899,504.74	3,004,328.04	2,500,181.79	6,094,354.90	2,649,862.58	1,855,053.39	23,713,831.53
Depreciation and Amortization Expenses										
66001 Amortization - Non-Network Leasehold Improvements	176,078.58	176,078.58	180,698.55	217,374.33	201,095.20	200,976.92	202,502.48	204,315.46	216,891.86	1,776,011.96
66003 Amortization - Network Leasehold Improvements	337.41	337.41	337.41	337.41	337.41	337.41	337.41	337.41	337.41	3,036.69
66013 Amortization - Network Software Developed	5,000.00	10,128.13	7,051.25	7,051.25	7,051.25	7,051.25	114,022.86	124,395.77	7,051.25	64,486.50
66015 Amortization - Network Software Purchased	297,502.94	297,502.94	297,502.94	303,689.39	228,969.59	227,026.59	455,478.33	447,716.19	446,537.05	1,920,517.51
66017 Amortization - Non-Network Software Purchased	432,304.73	3,613,851.15	859,443.55	303,689.39	503,778.16	455,478.33	451,304.33	447,716.19	446,537.05	7,516,943.78
66021 Amortization - Non-Network Software Purchased	116,934.28	130,795.10	133,616.21	132,571.13	128,162.70	126,786.01	126,236.64	120,138.87	119,892.96	1,137,233.90
66205 Dep - Office Furniture	351.44	351.44	351.44	351.44	351.44	351.44	351.44	351.44	351.44	3,162.95
66301 Dep - Office Equipment	12,325.97	12,971.29	12,971.29	12,971.29	12,971.29	12,971.29	12,971.29	12,971.29	12,971.29	115,450.22
66303 Dep - Office Equipment	4,335.88	4,335.88	4,335.88	4,335.88	4,430.14	4,373.32	4,373.32	4,373.32	4,186.94	39,080.60
66401 Dep - Data Processing Equipment	254,456.41	238,067.58	252,595.77	261,718.15	127,314.78	182,356.80	177,478.82	435,077.83	275,386.82	2,205,501.96
66403 Dep - Communications Equipment	7,380.34	6,889.05	6,889.05	10,457.88	7,608.73	7,842.05	7,842.05	7,842.05	6,702.70	69,453.90
66701 Dep - Switching Equipment	1,035,171.44	889,738.66	994,124.35	833,077.14	838,572.34	883,744.07	785,953.05	901,987.64	934,653.29	8,097,341.98
66705 Dep - Transmission Equip.	332,136.27	294,705.46	318,633.79	327,773.55	331,508.87	329,717.37	330,589.67	330,384.34	330,193.61	2,925,642.93
66721 Dep - DCME	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
66723 Dep - Transport ATM	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
66737 Dep - Other Plant Equipment	24.29	24.29	24.29	24.29	24.29	24.29	24.29	24.29	24.29	218.61
Total Depreciation and Amortization Expenses	2,694,016.94	5,679,776.96	3,068,575.77	2,375,813.75	2,391,976.19	2,441,046.14	2,221,019.61	2,596,977.15	2,404,881.18	25,874,083.89
Operating Taxes										
67105 Property Taxes	91,666.67	120,518.09	91,666.67	91,666.67	91,666.67	91,666.67	91,666.67	113,333.33	113,333.33	897,184.77
67115 Franchise Taxes	200.00	6,574.00	20.00	10,158.00	10,816.00	72,264.00	29,047.00	(27.00)	22,136.25	151,188.25
67135 Sales and Use Taxes	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	21,754.24	21,754.24
67199 Other Taxes and Fees	275.00	8,885.44	0.00	0.00	0.00	66.21	45.00	1,602.49	0.00	10,874.14
Total Operating Taxes	92,141.67	135,977.53	91,686.67	101,824.67	102,482.67	163,996.88	120,758.67	114,908.82	157,223.82	1,081,001.40
Other Operating Expenses										
69204 General Service Billing Expense - Advertising	643.74	1,016.29	523.72	43.65	19.65	456.02	1,666.25	48.33	8,807.31	13,224.96
69205 General Service Billing Expense - BSC HQ All Other	390,174.28	469,257.59	494,653.89	458,112.22	381,881.37	237,222.94	362,625.34	642,244.60	507,436.82	3,942,609.05
69206 General Service Billing Expense - DC	45,074.71	33,524.34	30,344.91	32,531.21	30,970.53	29,262.00	19,792.87	20,228.38	12,074.63	253,910.58
69207 ITC Corporate Allocation	0.00	0.00	1,145,527.42	0.00	0.00	1,197,682.72	(0.02)	0.00	0.00	2,343,210.12
69208 Billing and Collection Fees	626,604.86	1,342,320.76	2,620,036.29	(686,065.04)	2,270,532.84	3,199,703.89	4,560,901.26	4,844,902.17	6,559,370.73	25,238,307.76
69209 PONS Expense	17,500.89	(3,150.00)	(114,330.00)	(54,515.00)	0.00	(3,020.00)	0.00	0.00	0.00	(157,515.00)
69211 BASC Service Charges	25,209.89	28,188.40	29,568.58	27,542.99	21,782.19	28,921.12	4,357.58	72,967.62	33,917.61	272,455.98
69216 Lobbying Expense Billed by DC	6,168.90	6,325.36	10,053.05	7,617.73	6,636.80	6,317.89	6,193.56	3,447.66	7,834.78	60,654.73
69305 Bad debt expense - Traditional	629,566.79	733,921.52	1,513,974.20	788,269.19	1,395,069.46	1,704,362.89	3,993,066.26	2,378,141.31	3,189,884.18	16,286,245.80
69305 Expense Reimbursement - PA	903,831.54	388,811.75	2,430,582.10	2,875,124.76	2,945,323.71	2,986,604.23	6,153,761.34	1,188,866.44	2,560,724.04	22,432,993.91
69405 Intellectual Property Expense - External	1,828,406.00	1,732,973.00	3,774,532.00	23,072.00	1,750,820.00	1,830,254.00	0.00	0.00	0.00	10,940,057.00
69313 Intellectual Property Expense - Internal	0.00	0.00	0.00	0.00	0.00	0.00	1,824,108.00	2,254,138.00	2,234,702.00	6,312,948.00

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BeilSouth Long Distance, Inc.
Income Statement
For the nine-month period ended February 28, 2003

	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	PTD
69903 Ground Shuttle	0.00	0.00	37.32	0.00	(37.32)	0.00	5.42	0.00	0.00	5.42
69905 Telecommunications	94,037.65	256,501.10	87,319.98	88,046.71	66,967.11	100,468.61	47,889.13	(160,897.27)	21,562.47	601,895.69
69907 Insurance	0.00	0.00	(4,223.00)	286.00	0.00	0.00	0.00	1,600.00	275,905.36	273,568.36
69909 Legal fee other than M&A	2,117.82	22,575.10	1,795.01	48,965.09	4,425.00	2,302.87	8,684.56	1,043.72	5,446.64	97,365.61
69911 Charitable contributions	824.50	1,180.28	12,188.50	(824.50)	3,428.03	375.00	380.53	375.00	0.00	17,927.34
69913 Office Supplies and Printing	15,935.19	17,832.48	40,025.55	(2,041.86)	25,936.96	11,321.50	11,321.50	13,512.05	33,346.57	167,048.65
69915 Postage, Freight, and Courier	43,775.40	34,126.38	209,407.30	28,970.45	21,022.78	5,803.63	7,073.08	7,220.81	3,318.20	360,718.03
69917 Software License Fees	208,968.67	(206,961.25)	0.00	0.00	29,722.60	16,504.98	642,120.32	6,612.78	(4,921.84)	675,541.18
69921 Permits and Other Fees	611,062.00	(791,156.02)	55,788.98	(53,828.18)	247.00	150.00	0.00	150.00	0.00	(161,251.24)
69923 Fines and Penalties	0.00	0.00	0.00	28.00	280.00	685.73	22.50	698.60	0.00	1,681.53
69925 Business Gifts >\$25	4,764.95	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,764.95
69927 Temporary Help	28,485.36	15,166.17	51,806.31	18,631.03	34,161.74	15,446.25	30,396.15	14,744.62	17,118.55	225,956.28
69935 Vendor Print Solutions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
69945 Professional Services other than M&A	2,347,676.03	3,060,894.04	5,110,393.75	8,160,242.35	12,754,376.03	9,684,525.79	(2,924,060.20)	6,416,960.33	8,334,645.29	52,945,653.41
69945 Auditing Services	0.00	0.00	290.00	0.00	0.00	0.00	0.00	0.00	0.00	290.00
69947 Bank Service Fees	0.00	0.00	0.00	0.00	0.00	0.00	20.00	849.82	133.92	1,003.74
69992 Restructure Charge	(990.08)	0.00	49,600.00	23,813,055.95	(1,000,000.00)	(46,468.29)	651,443.55	455,617.34	1,000.00	23,465,641.13
69999 Miscellaneous expense	(4,476,065.47)	(6,968,650.15)	345,457.11	(261,308.29)	(61,268.90)	217,236.15	202,239.29	202,239.29	261,965.22	(10,284,777.70)
69210 Ongoing Proj Acctg Exp (excl BTC)	(2,830,882.46)	3,225,365.67	219,831.54	257,232.98	286,615.57	634,673.39	277,706.27	195,954.90	339,365.00	2,605,862.86
Total Other Operating Expenses	422,242.37	3,399,166.81	18,115,124.51	35,569,241.44	20,968,883.15	21,858,482.02	15,821,714.54	18,359,429.21	24,403,637.58	158,917,921.63
Total Operating Expenses	52,422,205.36	60,729,945.43	67,236,595.33	83,724,313.53	67,276,030.31	80,134,587.39	76,286,968.00	75,794,016.15	77,808,712.64	641,412,374.14
Net Operating Income	(11,161,015.62)	(14,728,988.05)	(19,275,104.25)	(41,776,485.25)	(23,139,852.86)	(36,735,673.51)	(22,511,920.34)	(21,922,117.51)	(22,539,244.70)	(213,810,402.09)
Other Income										
Interest Income	0.00	11.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	11.00
73113 Interest Income (Investments equal to or less than 9	0.00	11.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	11.00
Total Interest Income	0.00	11.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	11.00
Miscellaneous Other Income										
79113 Sales Tax Commission Revenue	2,033.69	3,756.81	3,479.31	5,766.31	2,394.55	1,575.24	3,535.58	4,254.46	1,990.44	28,786.39
79999 Other Non-Operating Income	0.00	0.00	0.00	2,211.38	0.00	0.00	0.00	0.00	0.00	2,211.38
Total Miscellaneous Other Income	2,033.69	3,756.81	3,479.31	7,977.69	2,394.55	1,575.24	3,535.58	4,254.46	1,990.44	30,997.77
Total Other Income	2,033.69	3,767.81	3,479.31	7,977.69	2,394.55	1,575.24	3,535.58	4,254.46	1,990.44	31,008.77
Other Expenses										
Interest Expenses										
81133 Interest Expense - Deferred Compensation	2,970.33	0.00	0.00	(24,382.12)	(25,125.30)	0.00	(1,980.20)	0.00	13,851.25	(34,686.04)
81133 Interest Expense - Non Qualified Deferred Compensat	2,076.25	2,076.25	(2,298.75)	7,648.96	2,076.25	3,314.83	12,695.42	2,695.44	2,695.44	32,980.08
81149 Interest Expense Related to Capital - Capitalized	(11,948.67)	(13,030.27)	36,558.94	(4,960.90)	(4,644.21)	(337.13)	(4,793.72)	0.00	(20,183.75)	(22,739.71)
81199 Interest Expense - Other	0.00	(54.43)	0.00	2.00	188.00	0.00	237,157.84	245.59	0.00	237,539.00
Total Interest Expenses	(6,902.09)	(11,008.45)	34,260.19	(21,092.06)	(27,505.26)	2,977.70	243,079.34	2,941.03	(3,637.06)	213,113.34
(Gain)/Losses on Fixed Assets										
81311 Proceeds from Sale of Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
81312 (Gain)/Loss on Sale of Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,219.25	241,829.28	243,048.53
Total (Gain)/Losses on Fixed Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,219.25	241,829.28	243,048.53
Foreign Currency (Gains)/Losses										
81321 Realized Revaluation Foreign Currency (Gains)/Losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

PRIVATE/PROPRIETARY
 Contains Private and/or Proprietary Information.
 May Not be Used or Disclosed Outside of BeilSouth Companies
 Except Pursuant to a Written Agreement.

BellSouth Long Distance, Inc.
Income Statement
For the nine-month period ended February 28, 2003

	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	PTD
Total Foreign Currency (Gains)/Losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Other Expenses	(6,902.09)	(11,008.45)	34,260.19	(21,092.06)	(27,505.26)	2,977.70	243,079.34	4,160.28	238,192.22	456,161.87
Net Income Before Extraordinary and Delayed Items and Taxes	(11,172,079.84)	(14,714,211.79)	(19,305,885.13)	(41,747,415.50)	(23,109,953.05)	(36,737,075.97)	(22,751,464.10)	(21,922,023.33)	(22,775,446.48)	(214,235,555.19)
Net Income Before Taxes	(11,172,079.84)	(14,714,211.79)	(19,305,885.13)	(41,747,415.50)	(23,109,953.05)	(36,737,075.97)	(22,751,464.10)	(21,922,023.33)	(22,775,446.48)	(214,235,555.19)
Income Taxes										
Federal Income Taxes										
87111 Federal Income Tax - Current	(4,439,435.48)	(7,252,705.95)	(2,746,137.07)	(7,084,621.21)	(7,212,059.16)	(28,556,728.64)	(6,841,594.21)	(7,082,864.49)	(10,922,073.15)	(82,138,211.36)
87118 FIT on Biannual Corp Allocation Expense	0.00	0.00	(447,901.22)	0.00	0.00	(468,293.94)	0.00	0.00	0.00	(916,195.16)
87119 Federal Income Tax - Deferred	1,052,187.00	2,127,070.00	(3,132,035.00)	(6,444,167.00)	(332,676.00)	16,948,033.00	(3,001,851.00)	(76,758.00)	3,005,270.00	10,145,073.00
Total Federal Income Taxes	(3,387,248.48)	(5,125,635.95)	(6,326,073.29)	(13,528,788.21)	(7,544,735.16)	(12,076,989.58)	(9,843,445.21)	(7,159,612.49)	(7,916,805.15)	(72,909,333.52)
State and Local Operating Tax	0.00	0.00	0.00	0.00	0.00	(912,151.00)	0.00	0.00	0.00	(912,151.00)
87211 State and Local Income Tax - Current	(698,044.89)	(1,040,594.79)	(1,220,166.46)	(3,087,650.64)	(1,552,301.68)	(1,028,931.68)	6,184,577.07	(1,100,714.33)	(709,741.12)	(4,253,568.52)
87221 State and Local Income Tax - Deferred	(698,044.89)	(1,040,594.79)	(1,220,166.46)	(3,087,650.64)	(1,552,301.68)	(1,941,082.68)	6,184,577.07	(1,100,714.33)	(709,741.12)	(5,165,719.52)
Total State and Local Operating Tax	(4,085,293.37)	(6,166,230.74)	(7,546,239.75)	(16,616,438.85)	(9,097,036.84)	(14,018,072.26)	(3,658,868.14)	(8,260,326.82)	(8,626,546.27)	(78,075,053.04)
Total Taxes	(7,086,786.47)	(8,547,981.05)	(11,759,645.38)	(25,130,976.65)	(14,012,916.21)	(22,719,003.71)	(19,082,585.96)	(13,661,696.51)	(14,148,900.21)	(136,160,502.15)
Net Income										

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BellSouth Long Distance, Inc.
Balance Sheet
February 28, 2003

	<i>Current Period Balance FEB-2003</i>
Assets	
Current Assets	
Treasury Position	
11131 Project Accounting Treasury Position Account	(1,636,301.51)
11195 Unapplied Cash	(439,956.98)
Total Treasury Position	(2,076,258.49)
Accounts Receivable	
11211 A/R - Trade	4,745,041.09
11215 A/R - Unbilled	30,305,138.17
11231 A/R - Affiliates	74,859,169.47
11235 A/R - Executive Benefits	(1,068.00)
11240 A/R - Wholesale	35,690,095.73
11260 STD/VEBA Billing	7,255.42
11291 A/R - Settlement	(18,265.31)
11295 A/R - OAN Settlement	(564,822.47)
11299 A/R - Other	(12,650,296.43)
Total Accounts Receivable	132,372,247.67
Allow. for Doubtful Accounts	
11311 Allowance for Doubtful Accounts - Trade	(110,074.55)
11321 Allowance for Doubtful Accounts - Other	(25,760,269.21)
11381 Allowance for Adjustments	(12,393,651.33)
Total Allow. for Doubtful Accounts	(38,263,995.09)
Prepaid Expenses	
11821 Prepaid Rents	269,098.49
11831 Prepaid Insurance - Other than Life	4,587.65
11899 Prepaid - Other	4,613,347.71
11999 Other Current Assets	38,601.35
Total Prepaid Expenses	4,925,635.20
Total Current Assets	96,957,629.29
Non-Current Assets	
Operating Equipment	
12205 Other Equipment	27,895.79
Total Operating Equipment	27,895.79
Furniture and Fixtures	
12301 Office Furniture	1,401,142.02
12302 Office Furniture - Clearing	(1,444.95)
12303 Office Equipment	258,733.94
Total Furniture and Fixtures	1,658,431.01
Data Processing and Communications Equip.	
12401 Data Processing Equipment	18,581,833.65
12402 Data Processing Equipment - Clearing	617,911.92
12403 Communications Equipment	467,321.07
12404 Communications Equipment - Clearing	91,770.00
Total Data Processing and Communications Equip.	19,758,836.64
Plant Equipment	
12701 Switching Equipment	110,440,472.39
12702 Switching Equipment - Clearing	5,209,828.73
12705 Transmission Equip.	19,248,561.89
12706 Transmission Equip. Clearing	52,223.80
12721 DCME	0.00
12723 Transport ATM	0.00
12727 Fiber Cable	3,200,000.00
12797 Other Plant Equipment	2,914.31
Total Plant Equipment	138,154,001.12
Accumulated Depreciation	
13205 A/D Other Equipment	(4,438.13)
13301 A/D Office Furniture	(567,821.07)
13303 A/D Office Equipment	(112,761.39)
13401 A/D Data Processing Equipment	(11,401,653.44)
13403 A/D Communications Equipment	(130,897.41)
13701 A/D Switching Equipment	(18,658,218.60)
13705 A/D Transmission Equip.	(7,479,418.26)
13721 A/D DCME	0.00
13723 A/D Transport ATM	0.00
13727 A/D Fiber Cable	(3,200,000.00)
13797 A/D Other Plant Equipment	(595.06)
Total Accumulated Depreciation	(41,555,803.36)
Amortizable and Intangible Assets	
14001 Non-Network Leasehold Improvements	23,813,827.50
14002 Non-Network Leasehold Improvements - Clearing	(55,819.28)
14003 Network Leasehold Improvements	40,489.04

BellSouth Long Distance, Inc.
Balance Sheet
February 28, 2003

	<i>Current Period Balance FEB-2003</i>
14013 Network Software-Developed	303,075.24
14015 Network Software-Purchased	10,534,105.02
14016 Network Software-Purchased-Clearing	1,249,059.49
14017 Non-Network Software-Developed	40,969,845.10
14018 Non-Network Software-Developed-Clearing	788,772.00
14021 Non-Network Software-Purchased	4,947,032.81
14022 Non-Network Software-Purchased-Clearing	(14,513.21)
Total Amortizable and Intangible Assets	82,575,873.71
Accumulated Amortization	
15001 Accumulated Amortization Non-Network Leasehold Impro	(7,733,960.39)
15003 Accumulated Amortization Network Leasehold Improve	(8,547.53)
15013 Accumulated Amortization - Network Software - Develo	(161,986.90)
15015 Accumulated Amortization - Network Software - Purcha	(8,440,889.59)
15017 Accumulated Amortization - Non-Network Software - De	(26,044,156.54)
15021 Accumulated Amortization - Non-Network Software - Pu	(3,303,041.99)
15033 Accumulated Amortization - SERP	0.40
Total Accumulated Amortization	(45,692,582.54)
Construction In Progress	
16001 Construction in Progress (For PA use only)	4,061,806.48
16003 Construction in Progress - Accruals	550,000.00
Total Construction In Progress	4,611,806.48
Deferred Charges	
19323 Long Term Prepaid Pension Costs	188,000.00
Total Deferred Charges	188,000.00
Other Non-Current Assets	
19901 Cash Surrender Value - Company Owned Life Insurance	147,086.02
Total Other Non-Current Assets	147,086.02
Total Non-Current Assets	159,873,544.87
Total Assets	256,831,174.16
Liabilities	
Current Liabilities	
Accounts Payable	
21112 A/P - Affiliates	50,484,798.63
21119 Accrued A/P Trade	68,891,900.10
Total Accounts Payable	119,376,698.73
Advance Billings & Deposits	
21512 Advance Billings/Unearned Income	388,679.47
21513 Deposits Held	155,000.00
Total Advance Billings & Deposits	543,679.47
Accrued Expenses	
21711 Salary, Wages, & Benefits Accrued	6,491.42
21716 Accrued Sales Commissions	277,600.00
21721 Lump Sum Performance Award Accrued	3,434,999.41
21773 Accrued Compensated Absences	1,064,645.25
21792 Accrued Restructuring Liability	7,426,397.57
21799 Accrued Other Expenses	16,510,979.86
Total Accrued Expenses	28,721,113.51
Taxes Payable	
21816 Property Taxes Payable	311,941.88
21817 Sales and Use Taxes Payable	3,078,275.64
21819 Gross Receipts Taxes Payable	0.00
21821 Federal Excise Taxes Payable	(2,918,577.15)
21822 Other Non-Income Taxes Payable	(231,047.83)
21824 Federal Income Taxes Payable-Current	(30,834,223.27)
21826 State & Local Income Taxes Payable-Current	170,058.00
Total Taxes Payable	(30,423,572.73)
Total Current Liabilities	118,217,918.98
Non-Current Liabilities	
Accum. Deferred Income Tax-Federal	
22211 ADIT-Federal Operating	18,368,172.35
Total Accum. Deferred Income Tax-Federal	18,368,172.35
Accum. Deferred Income Tax-State & Local	
22311 ADIT-State and Local Operating	(45,523,937.12)
22312 ADIT-State and Local Valuation Allowance	9,461,111.11
Total Accum. Deferred Income Tax-State & Local	(36,062,826.01)

BellSouth Long Distance, Inc.
Balance Sheet
February 28, 2003

	<i>Current Period Balance FEB-2003</i>
Deferred Compensation	
22412 Non-qualified deferred income plan	128,925.82
22415 Deferred compensation-Stock Units	94,009.85
22416 Deferred compensation-Cash	231,758.90
Total Deferred Compensation	454,694.57
Accrued Pension Liability	
22511 Non-Represented Pension Plan	(792,192.87)
22512 Represented Pension Plan	(84,000.00)
Total Accrued Pension Liability	(876,192.87)
Accrued VEBA Contributions	
22611 Post-Retirements Benefits (OPRB)	1,370,729.08
Total Accrued VEBA Contributions	1,370,729.08
Supplemental Executive Retirement and Awards Liability	
22812 SERP-Regular	2,885,925.84
Total Supplemental Executive Retirement and Awards Liability	2,885,925.84
Miscellaneous Deferred Credits and Other Liabilities	
22913 Casualty Loss Reserve - IBNR	(6.20)
Total Miscellaneous Deferred Credits and Other Liabilities	(6.20)
Total Non-Current Liabilities	(13,859,503.24)
Total Liabilities	104,358,415.74
Stockholders Equity	
Additional Paid in Capital	
32111 Additional Paid in Capital-Intercompany	584,453,568.77
32114 Additional Paid in Capital-Common Stock	1,500.00
Total Additional Paid in Capital	584,455,068.77
Retained Earnings	
39111 Retained Earnings-Beginning of Yr	(295,821,808.20)
Retained Earnings - Current Year Net Income	(136,160,502.15)
Total Retained Earnings	(431,982,310.35)
Total Stockholders Equity	152,472,758.42
Total Liabilities and Stockholders Equity	256,831,174.16

Secretary of State
Division of Business Services
312 Eighth Avenue North
6th Floor, William R. Snodgrass Tower
Nashville, Tennessee 37243

ISSUANCE DATE: 12/18/2003
REQUEST NUMBER: 03352544
TELEPHONE CONTACT: (615) 741-6488

Attachment 3

CHARTER/QUALIFICATION DATE: 08/29/1996
STATUS: ACTIVE
CORPORATE EXPIRATION DATE: PERPETUAL
CONTROL NUMBER: 0317009
JURISDICTION: DELAWARE

TO:
STOKES & BARTHOLOMEW
424 CHURCH ST
NASHVILLE, TN 37209

REQUESTED BY:
STOKES & BARTHOLOMEW
424 CHURCH ST
NASHVILLE, TN 37209

CERTIFICATE OF AUTHORIZATION

I, RILEY C DARNELL, SECRETARY OF STATE OF THE STATE OF TENNESSEE DO HEREBY CERTIFY THAT
"BELLSOUTH LONG DISTANCE, INC.",

A CORPORATION FORMED IN THE JURISDICTION SET FORTH ABOVE, IS AUTHORIZED TO
TRANSACTION BUSINESS IN THIS STATE;
THAT ALL FEES, TAXES, AND PENALTIES OWED TO THIS STATE WHICH AFFECT THE
AUTHORIZATION OF THE CORPORATION HAVE BEEN PAID;
THAT THE MOST RECENT CORPORATION ANNUAL REPORT REQUIRED HAS BEEN FILED
WITH THIS OFFICE; AND
THAT AN APPLICATION FOR CERTIFICATE OF WITHDRAWAL HAS NOT BEEN FILED.

FOR: REQUEST FOR CERTIFICATE

ON DATE: 12/18/03

FROM:
STOKES & BARTHOLOMEW (424 CHURCH/FL 28)
424 CHURCH STREET
28TH FLOOR
NASHVILLE, TN 37219-0000

RECEIVED:	FEES	
	\$20.00	\$0.00
TOTAL PAYMENT RECEIVED:		\$20.00

RECEIPT NUMBER: 00003395817
ACCOUNT NUMBER: 00001566



Riley C Darnell

RILEY C. DARNELL
SECRETARY OF STATE

Bellsouth Corporation - Public Policy - Microsoft Internet Explorer provided by BellSouth Long Distance

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Address http://bellsouthcorp.com/policy/transactions/

BELLSOUTH

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Public Policy

Section 272 Transactions

This site contains information about the transactions between BellSouth Long Distance, Inc. (BSLD) and BellSouth Telecommunications, Inc. (BST), including a brief summary of each transaction and a link to the text of the agreements. Information will remain posted on this site for at least one year after the transaction is completed or terminated. This site also contains information about the process by which BellSouth finalizes and posts such transactions to this site.

Note: You will need the Adobe Acrobat Reader 4.0 or higher to view the following documents. Please download a free copy of the reader from the [Adobe Web Site](#).

[Process for Section 272 Transactions](#)

[Process Flow for Section 272 Transactions](#)

[Process for Completed or Terminated Section 272 Transactions](#)

[Process Flow for Completed or Terminated Section 272 Transactions](#)

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Active Transactions	Effective Date
<p>Office</p> <p>Start Tennessee Regulatory Au... BellSouth Corporation...</p> <p>12:31 PM</p>	

PROCESS FOR SECTION 272 TRANSACTIONS

RULE:

ALL BST/BSLD transactions must be conducted on an arm's length basis, reduced to writing, and made available for public inspection in accordance with FCC requirements.

1. The service/asset providing company's Business Personnel obtains Executive Directive No. 8 approval;
2. The company providing the proposed service/asset reduces to writing the proposed service/asset specifications into an agreement "Final Draft" and "Transaction Summary" of the proposed transaction;
3. The service/asset providing company's legal department forwards the Final Draft and Summary Description to the service/asset receiving company's legal representative;
4. Each legal representative coordinates internal review of the Final Draft and Transaction Summary of the proposed transaction;
5. Upon completion of internal reviews by both the providing and receiving companies of the Final Draft and Transaction Summary,
 - (a) the BSLD legal representative advises its Business Personnel to proceed, and
 - (b) the BST legal representative advises its Business Personnel to proceed;
6. Business Personnel from both the service/asset providing and recipient companies secure signatures approving Final Draft with Transaction Summary using either a **SERIAL SIGNATURE PROCESS** or **CLOSING** process;
 - 6a. **SERIAL SIGNATURE PROCESS**
 - i) BST's Business Personnel secures signature of appropriate company official on two (2) duplicate originals of the Final Draft;
 - ii) BST's Business Personnel forwards signed duplicate originals with Transaction Summary to the Business Personnel of BSLD;
 - iii) BSLD's Business Personnel secures signature of appropriate company official on two (2) duplicate originals of the Final Draft;
 - iv) BSLD's Business Personnel
 - (a) forwards one (1) signed original agreement/amendment with Transaction Summary to BST's legal representative,
 - (b) retains one (1) copy of the signed original agreement/amendment with Transaction Summary for departmental reference file, and
 - (c) forwards one (1) signed original agreement/amendment with Transaction Summary of the approved agreement/amendment and electronic copies of the signed agreement/amendment and Transaction Summary to the BSLD Contract Manager-Business Implementation & Compliance;
 - v) BST's legal representative
 - (a) forwards one (1) copy of the signed original agreement/amendment with Transaction Summary to the appropriate business personnel of BST,
 - (b) forwards one (1) copy of the signed original agreement/amendment with Transaction Summary to BST's Manager-Regulatory responsible for maintaining the required publicly available BST copy of the BST/BSLD affiliate transactions, and
 - (c) retains one (1) signed original agreement/amendment with Transaction Summary.

NOTE: BSLD = BellSouth Long Distance, Inc., BST = BellSouth Telecommunications, Inc.

PROCESS FOR SECTION 272 TRANSACTIONS

(Continued)

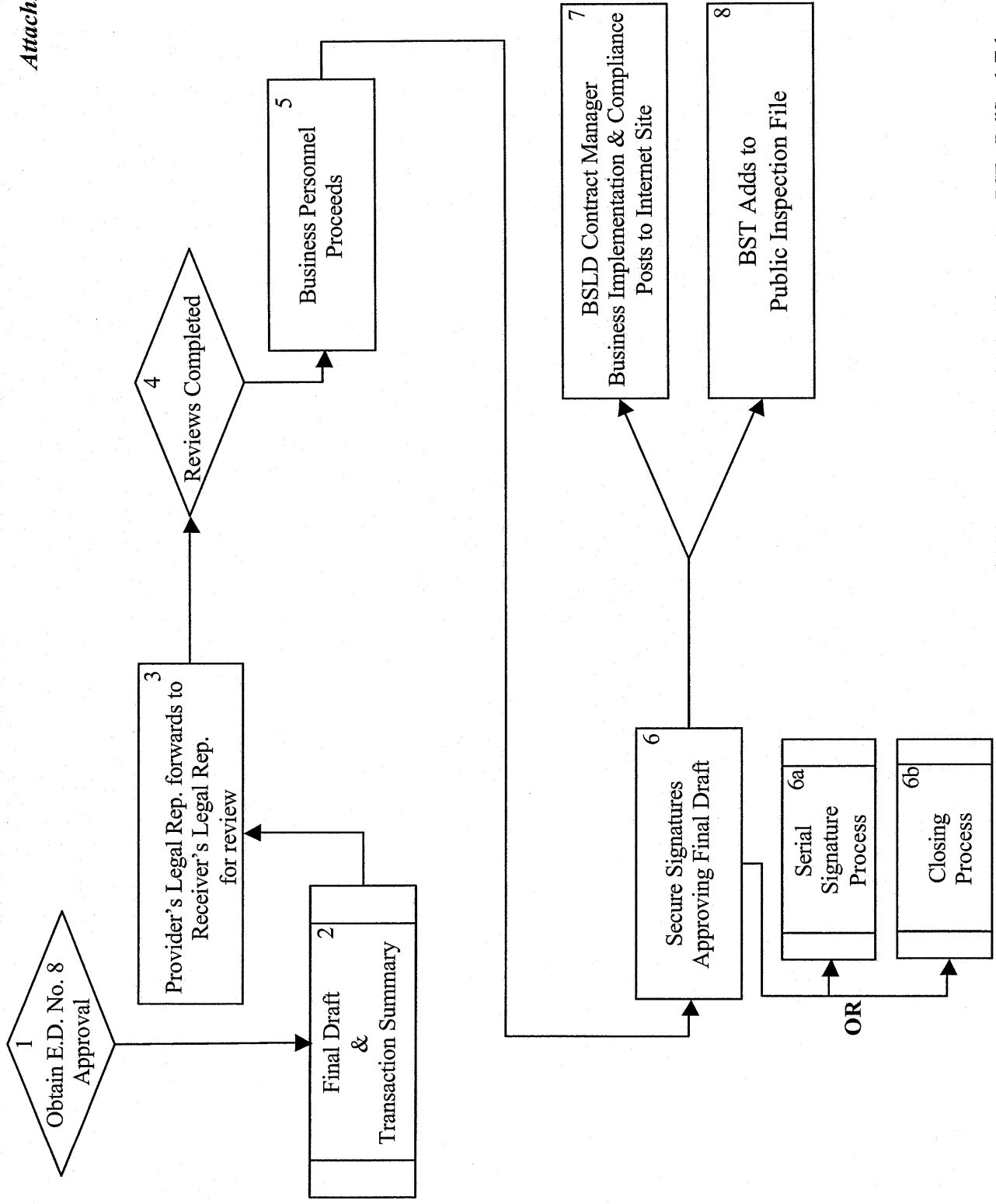
- 6b. **CLOSING PROCESS** – Business Personnel and signing officials from both BSLD and BST meet at a mutually agreeable time and place to approve and affix signatures to the two (2) duplicate originals of the Final Draft **with** Transaction Summary. Each signing company's Business Personnel retains one (1) signed original **with** Transaction Summary and distributes/processes accordingly.
- i) BSLD's Business Personnel
 - (a) forwards one (1) signed original agreement/amendment **with** Transaction Summary to BST's legal representative,
 - (b) retains one (1) *copy* of the signed original agreement/amendment **with** Transaction Summary for departmental reference file, and
 - (c) forwards one (1) signed original agreement/amendment **with** Transaction Summary of the approved agreement/amendment and electronic copies of the signed agreement/amendment and Transaction Summary to the BSLD Contract Manager-Business Implementation & Compliance;
 - ii) BST's Business Personnel
 - (a) forwards one (1) signed original agreement/amendment **with** Transaction Summary to the BST legal representative, and
 - (b) forwards one (1) copy of the signed original agreement/amendment **with** Transaction Summary to BST's Manager-Regulatory responsible for maintaining the required publicly available BST copy of the BST/BSLD affiliate transactions.
7. BSLD's Contract Manager-Business Implementation & Compliance posts the approved agreement/amendment and Transaction Summary to the BellSouth Public Policy Transactions internet site within 10 days of execution by both BSLD and BST;
8. The BST Manager-Regulatory maintains, in an area available for public inspection, a copy of the approved agreement/amendment **with** Transaction Summary and a statement certifying the truth and accuracy of such disclosures.

**Questions concerning this process should be directed to the BellSouth Long Distance, Inc. Legal Department
or
BellSouth Telecommunications, Inc. Legal Department, Senior Counsel-Affiliated Transactions**

NOTE: BSLD = BellSouth Long Distance, Inc., BST = BellSouth Telecommunications, Inc.

PROCESS FLOW FOR SECTION 272 TRANSACTIONS

Attachment 7.B.2



NOTE: BSLD = BellSouth Long Distance, Inc.. BST = BellSouth Telecommunications, Inc.

PROCESS FOR COMPLETED or TERMINATED SECTION 272 TRANSACTIONS

RULE:

ALL BST/BSLD transactions must be conducted on an arm's length basis, reduced to writing, and made available for public inspection in accordance with FCC requirements.

1. Business Personnel of the company providing the service/asset prepares a "***Letter of Termination***" for a transaction that is being terminated in advance of the expected completion date;
2. Business Personnel of the company providing the service/asset provides their company's legal department representative supporting the transaction with two (2) duplicate originals of the proposed ***Letter of Termination***;
3. The service/asset providing company's legal representative forwards one (1) **COPY** of the proposed ***Letter of Termination*** to the service/asset receiving company's legal representative;
4. Each legal representative coordinates internal review of the proposed ***Letter of Termination***;
5. Upon completion of internal reviews by both the providing and receiving companies, the legal representative of the service/asset providing company advises Business Personnel to proceed;
6. Business Personnel of the company providing the service/asset secure the appropriate signature on both (2) duplicate originals approving the ***Letter of Termination***;
7. The legal representative of the service/asset providing company forwards one (1) signed original of the ***Letter of Termination*** to the service/asset receiving company's legal representative;
8. The BST legal representative forwards one (1) copy of the signed original ***Letter of Termination*** to the appropriate BST business personnel and one (1) copy of the signed original ***Letter of Termination*** to the BST Manager-Regulatory responsible for maintaining the required publicly available BST copy of the BST/BSLD affiliate transactions;
9. The BSLD legal representative forwards one (1) copy of the signed original ***Letter of Termination*** to the appropriate BSLD business personnel and the signed original ***Letter of Termination*** to the BSLD Contract Manager-Business Implementation & Compliance;
10. The BSLD Contract Manager-Business Implementation & Compliance relocates the completed or terminated agreement from the active transactions section of the internet site to the terminated transactions section of the internet site and retains the original ***Letter of Termination***. (*Note: Agreements completing as scheduled per the agreement terms require written notification of completion to the BSLD Contract Manager to authorize movement of the agreement listing from the Active Transactions to the Terminated Transactions section of the internet site.*)
11. The BST Manager-Regulatory maintains, in an area available for public inspection, the completed or terminated agreement/amendment **with** Summary Transaction, "***Letter of Termination***", and a statement certifying the truth and accuracy of such disclosures.

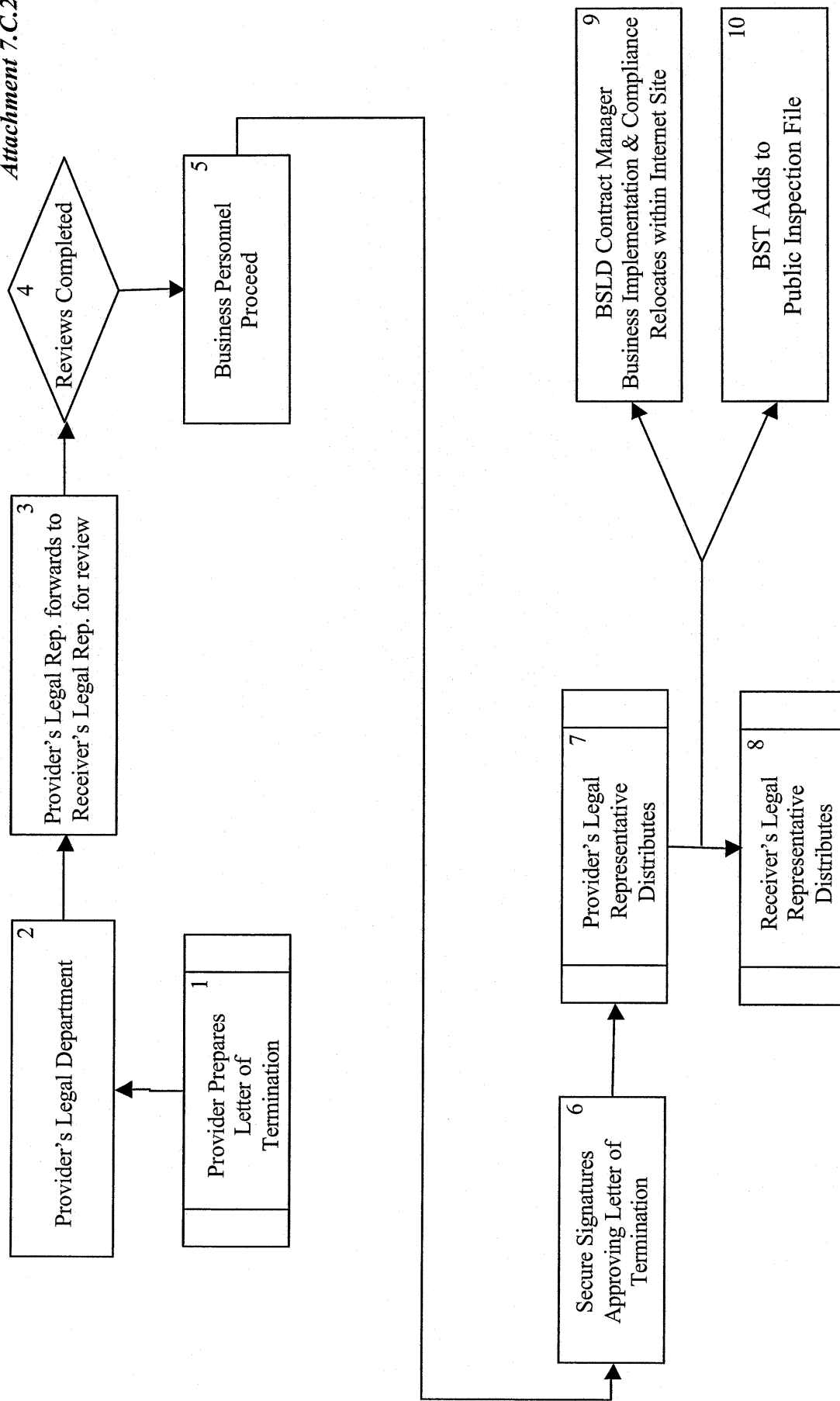
*Questions concerning this process should be directed to the BellSouth Long Distance, Inc. Legal Department
or*

BellSouth Telecommunications, Inc. Legal Department, Senior Counsel-Affiliated Transactions

NOTE: BSLD = BellSouth Long Distance, Inc., BST = BellSouth Telecommunications, Inc.

PROCESS FLOW FOR COMPLETED or TERMINATED SECTION 272 TRANSACTIONS

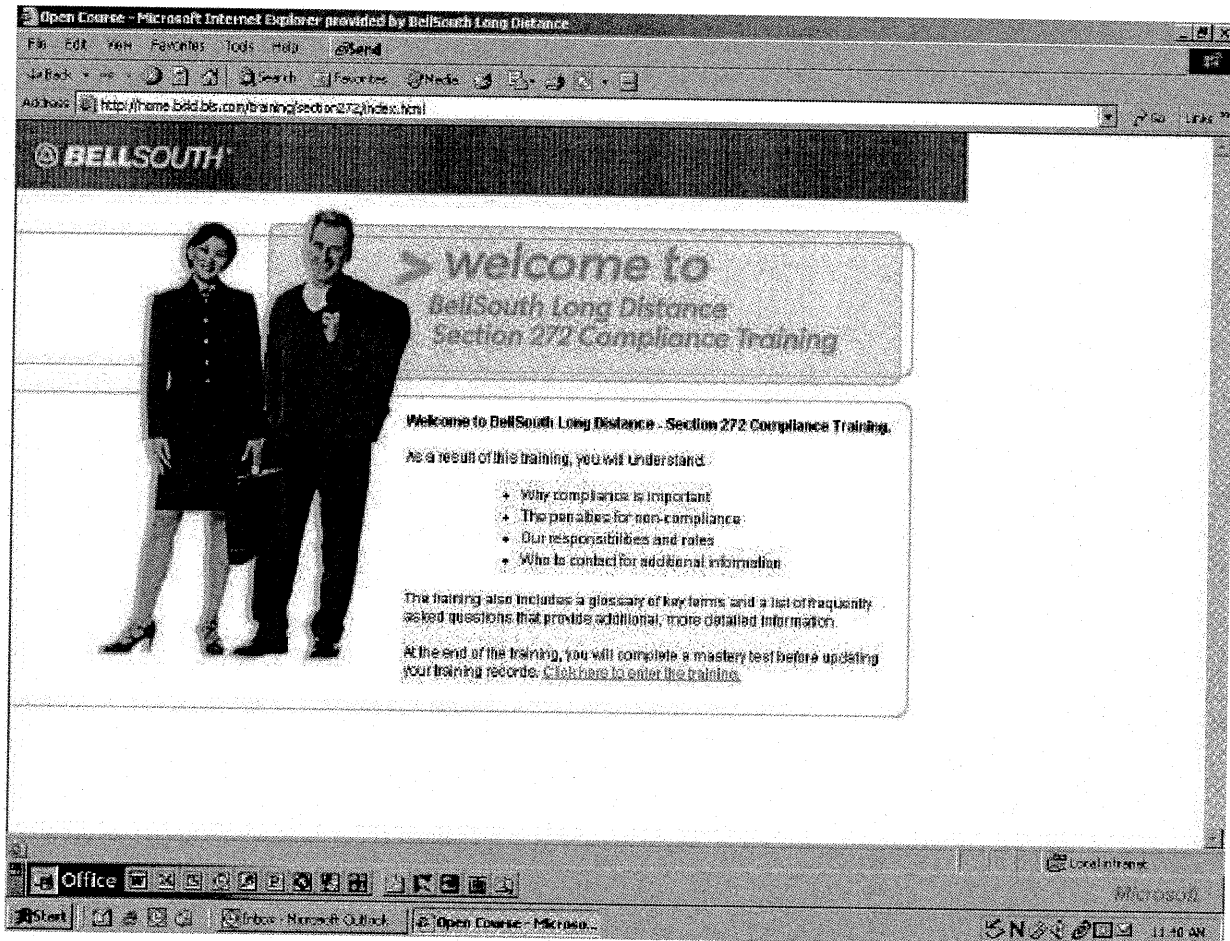
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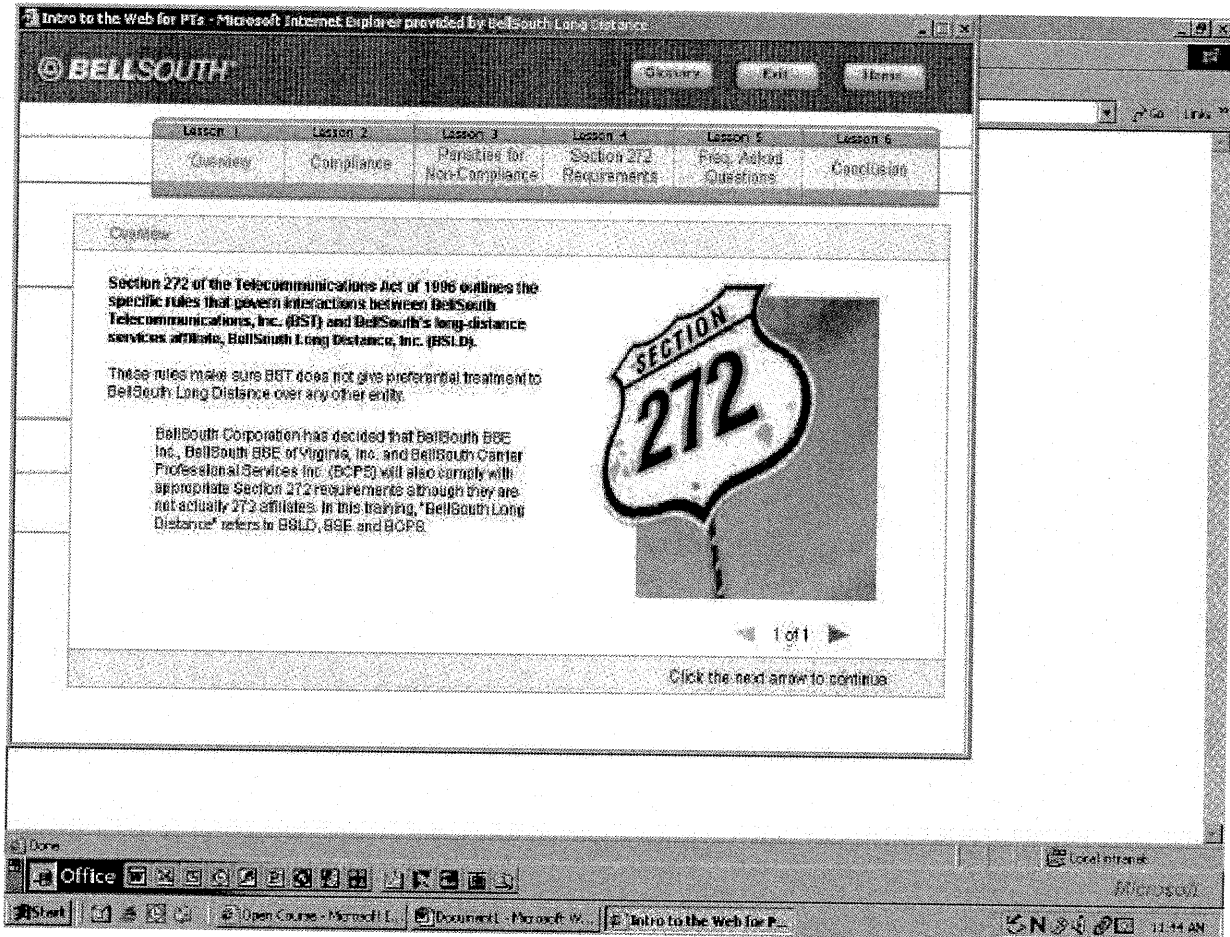


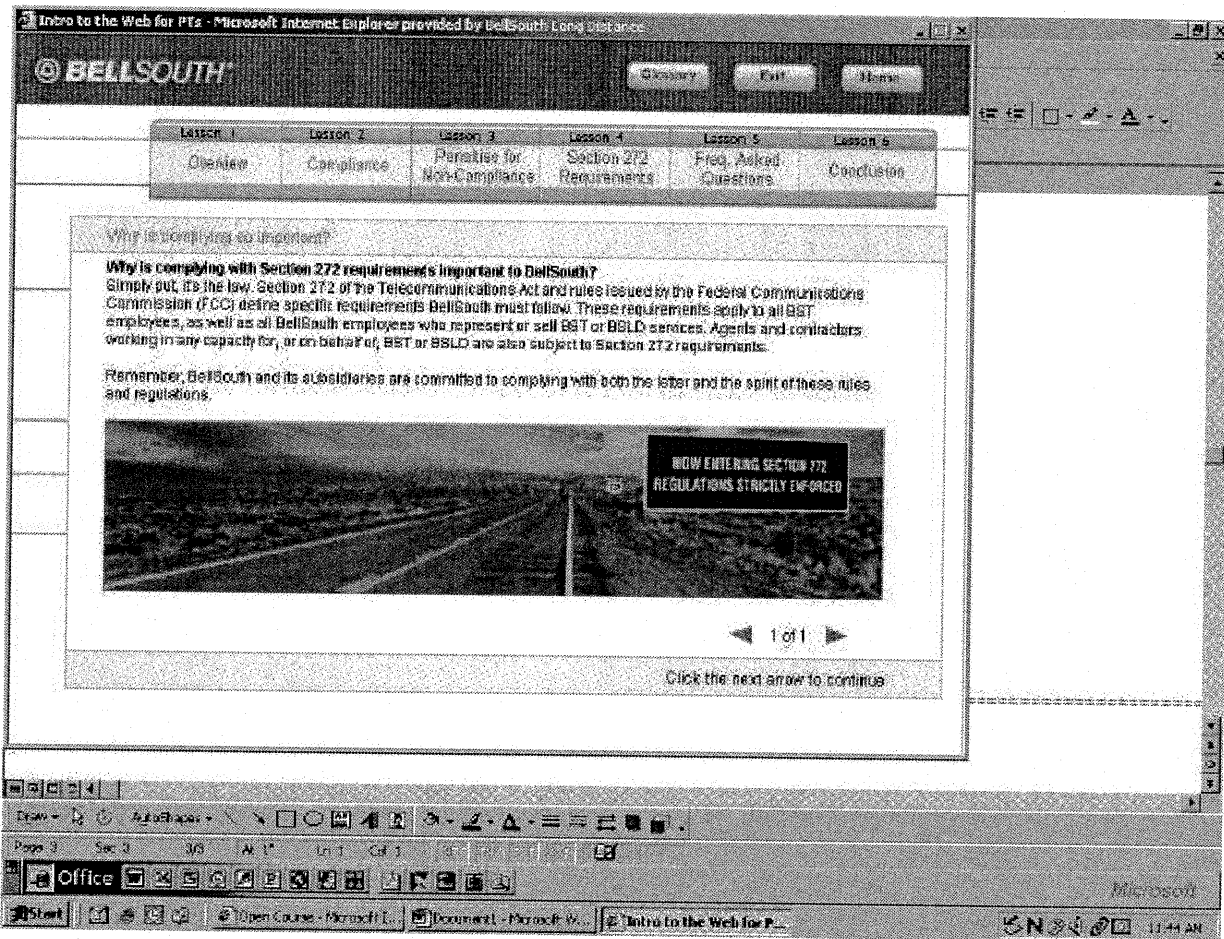
NOTE: BSLD = BellSouth Long Distance, Inc.. BST = BellSouth Telecommunications, Inc.

**BSLD's Internal Process
for
Posting and Relocating Section 272 Transactions
to and within the
BellSouth Public Policy Transactions Internet Site**

1. BSLD's Contract Manager-Business Implementation & Compliance obtains a signed original and electronic copy (MS Word) of agreement/amendment with Transaction Summary, completion notification, or Letter of Termination from BSLD's Business Personnel.
2. BSLD's Contract Manager-Business Implementation & Compliance enters signature information into electronic (MS Word) copy of agreement/amendment.
3. BSLD's Contract Manager-Business Implementation & Compliance converts electronic (MS Word) copy of agreement/amendment in to an Adobe PDF document or scans original signed copy of agreement/amendment in to an Adobe PDF document.
4. BSLD's Contract Manager-Business Implementation & Compliance prepares an e-mail with posting or relocation instructions, agreement/amendment effective date, and agreement/amendment title and attaches PDF copy of agreement/amendment and Transaction Summary. E-mail is sent to request@idi.net for internet posting to or relocation within the BellSouth Public Policy Transactions internet web site as well as cc: to BSLD's Director, Business Implementation & Compliance and BST's Manager-Regulatory. (Note: The cc: serves as notification to concerned parties that a new Section 272 Transaction is being posted to the internet website or that an existing Section 272 Transaction is being relocated within the internet website due to completion or termination and that, if applicable, a copy of the transaction should be obtained from the appropriate Company personnel.)
5. BSLD's Contract Manager-Business Implementation & Compliance prints and retains a copy of e-mail requesting the internet posting for the BSLD file.
6. BSLD's Contract Manager-Business Implementation & Compliance receives a confirmation e-mail from request@idi.net confirming that the transaction has been posted or relocated according to instructions and prints and retains a copy of posting confirmation for the BSLD file.
7. BSLD's Contract Manager-Business Implementation & Compliance accesses the BellSouth Public Policy Transactions web site and prints a dated copy of Transaction Index, dated copy of the specific Transaction Summary, and a copy of the posted Section 272 Transaction for the BSLD file.
8. BSLD's Contract Manager-Business Implementation & Compliance creates a file of all related documentation and records all agreement/amendment information on a 272 Internet Postings Log which is kept in the master agreement file.
9. BSLD's Contract Manager-Business Implementation & Compliance records all agreement/amendment information in to BSLD's REMEDY Contract Administration Tracking System (CATS).







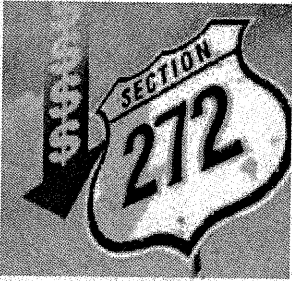
Intro to the Web for PEs - Microsoft Internet Explorer provided by BellSouth Long Distance

BELLSOUTH [Close] [Exit] [Home]

Lesson 1 Overview	Lesson 2 Compliance	Lesson 3 Penalties for Non-Compliance	Lesson 4 Section 272 Requirements	Lesson 5 Frequently Asked Questions	Lesson 6 Conclusion
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Penalties for Non-Compliance

What are the penalties for non-compliance?
If BellSouth does not adhere to Section 272 requirements, the FCC can:



Long Distance Revenue

- Issue an order to correct the deficiency.
- Impose a financial penalty.
- Suspend or revoke BellSouth's approval to offer long-distance services.
- Combine any of these sanctions.

If the FCC suspends or revokes BellSouth's ability to provide long-distance services, BellSouth could lose the significant revenue stream that long-distance services can produce. Even a lesser penalty, such as a fine, could result in significant expenses. The bottom line is that we will comply with these rules.

1 of 1

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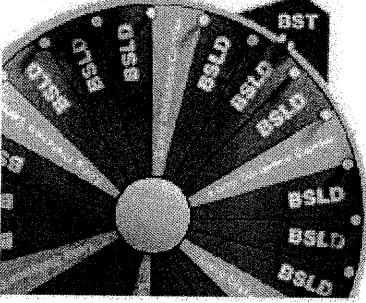
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BELLSOUTH

Overview Exit Home

Lesson 1	Lesson 2	Lesson 3	Lesson 4	Lesson 5	Lesson 6
Overview	Compliance	Penalties for Non-Compliance	Section 272 Requirements	Freq. Asked Questions	Conclusion

What does Section 272 require?



Section 272 requirements state BST cannot give preferential treatment to BellSouth Long Distance over any other entity.

BST cannot favor BSLD when providing or receiving goods, services, facilities or information. The only exception is joint marketing activities, which will be discussed in detail later in this training.

1 of 8

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Overview	Compliance	Penalties for Non-Compliance	Section 272 Requirements	Prep. Asked Questions	Conclusion

What does Section 272 require?

Section 272 imposes the following general requirements:

- One:** BSLD must operate independently of BST.
- Two:** BST and BSLD must maintain separate books, records and accounts.
- Three:** BST and BSLD must have separate officers, boards of directors and employees.
- Four:** BST may not guarantee credit for BSLD.
- Five:** BSLD must conduct all transactions with BST on an arm's length basis, through a written contract that is available for public inspection.
- Six:** BST must use FCC-approved accounting principles and rules for all transactions with BSLD.
- Seven:** BST may not discriminate between BSLD and any other entity when providing or procuring goods, services, facilities and information, or establishing standards.

2 of 8

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BELLSOUTH

Lesson 1 Lesson 2 Lesson 3 Lesson 4 Lesson 5 Lesson 6
Overview Compliance Penalties for Non-Compliance Section 372 Requirements Preg. Asked Questions Conclusion

What do these rules really mean?

What do these rules really mean?

- **Joint ownership:** BBT and BSLD cannot jointly own transmission or switching facilities or the land/building where these facilities are located. BBT and other non-372 affiliates cannot operate, install or maintain BSLD's switching and transmission facilities, and BSLD cannot operate, install or maintain BBT's facilities.
- **Requests from competitors:** BBT must respond to all requests for exchange and exchange access in the same timeframe. And, except for joint sales and marketing services, BBT must provide facilities, services and information to all competitors on the same terms and conditions that it provides to BSLD.
- **Public disclosure:** BellSouth must publicly disclose all transactions between BBT and BSLD. These transactions are posted on the BellSouth Internet Web site and are maintained at BBT's corporate offices.

3 of 8

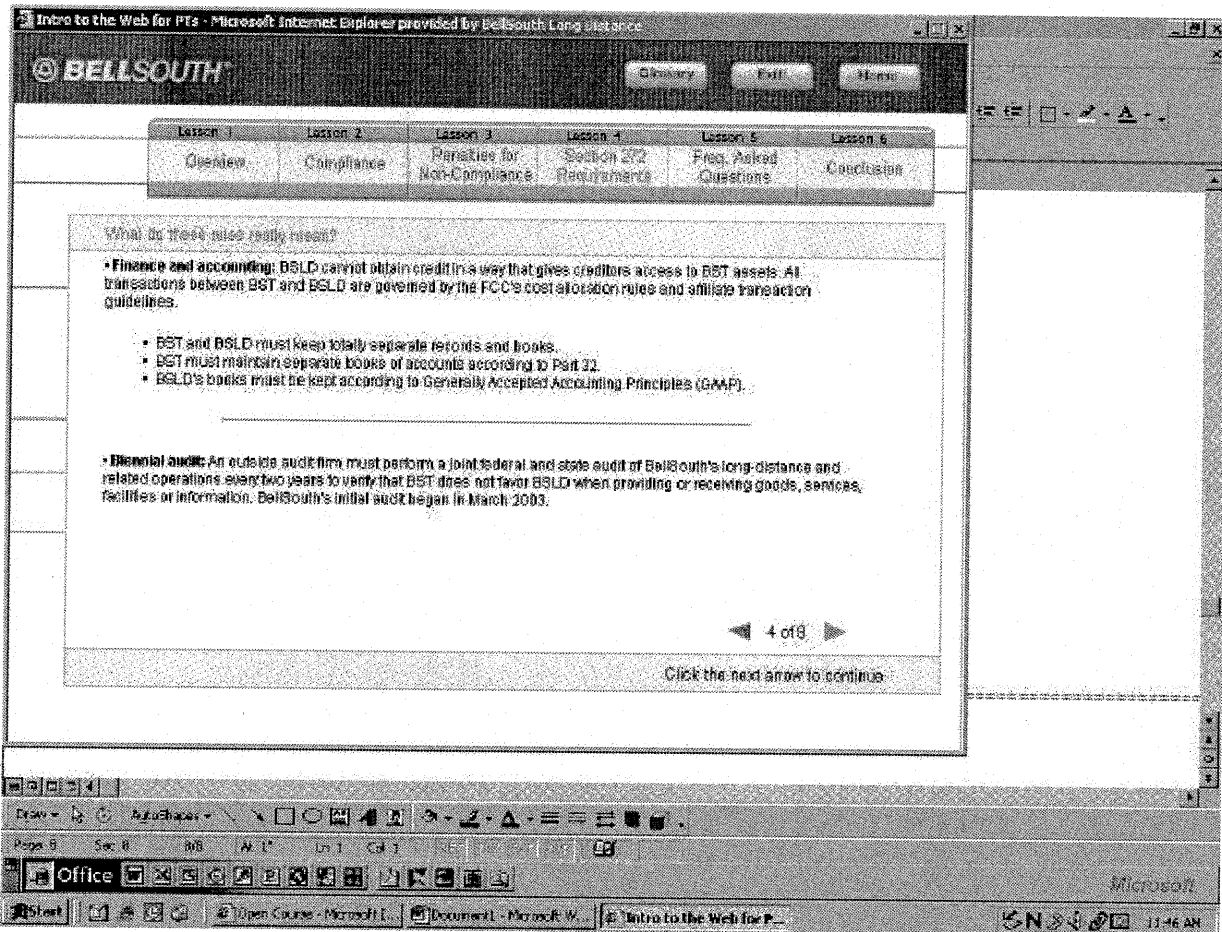
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What do these rules really mean?

Joint marketing: Joint marketing includes advertising, customer inquiries, sales functions and ordering.

BST can provide joint marketing services to BSLD under the following guidelines:

- Joint marketing must be conducted on an arm's length basis
- The services must be documented by a legal contract that is disclosed on the Internet
- BST and BSLD must follow all FCC accounting rules.

What joint marketing services are permitted:

- BST can market BSLD services without being required to market the services of other long-distance service providers (or any other entity)
- BSLD may not market or sell BST's local telephone service unless other long-distance companies can market and sell those same services.
- BST can market BSLD's service during inbound calls if it also offers to read (in random order) the names and telephone numbers of all available long-distance carriers.

Section 272 requirements do apply to the planning, design and development of BST's or BSLD's product offerings and after-market customer care.

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Lesson 1 Overview	Lesson 2 Compliance	Lesson 3 Penalties for Non-Compliance	Lesson 4 Section 272 Requirements	Lesson 5 Freq. Asked Questions	Lesson 6 Conclusion
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What do these rules really mean?

Here's how Section 272 requirements affect your daily responsibilities:

Transactions between BST and BSLD: New transactions and changes to existing transactions must be put in writing and approved by the legal department before services are provided or assets are transferred.

- All transactions must follow existing procedures for approval, early terminations and routine completions.
- Written descriptions of all transactions between BST and BSLD must be posted on the BellSouth Internet Web site, and be maintained at BST's corporate offices for public inspection.

Procedures you must follow to establish a new transaction:

- BSLD employees who want to establish a new transaction with BST must:
 - Provide a description or outline of the transaction to BSLD Carrier Relations for evaluation.
 - Follow Functional Policy 3.1 (EC008).
- BST employees who want to establish a new transaction with BSLD should:
 - Call the BST legal department at 404-395-0750.
 - Follow Functional Policy 3.1 (EC008).

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What do these rules really mean?

Arm's length transactions: All transactions between BST and BSLD must be put in writing:

- Transactions should be tariffed, priced at commercial rates that are offered to all other customers OR priced in accordance with the FCC's estimated fair market value (EFMV) parameters.
- Even with an approved contract, BSLD cannot request services directly from a BST department or agent in another affiliate (for example, BTG, BASC, BBS, BellSouth Corp.). Like non-affiliate customers, BSLD must request service through its account team representative.
- Even ordinary administrative services become commercial lines of business when they are provided between BST and BSLD.

All transactions between BST and BSLD are governed by the FCC's cost allocation rules and affiliate transaction guidelines.

Expenses and time reporting: All BST employees and agents (including vendors or employees of other affiliates) must appropriately document the time they spend in activities that involve or benefit BSLD. Each employee is responsible for making sure his/her time and expenses are appropriately coded/booked to the BST line of business being sold to BSLD.

Transfer loaned employees: BST employees who transfer to BSLD cannot take BST-proprietary information to their new jobs. Employees who are loaned to other companies must follow the rules governing non-discrimination, accounting for non-regulated services and affiliate transactions.

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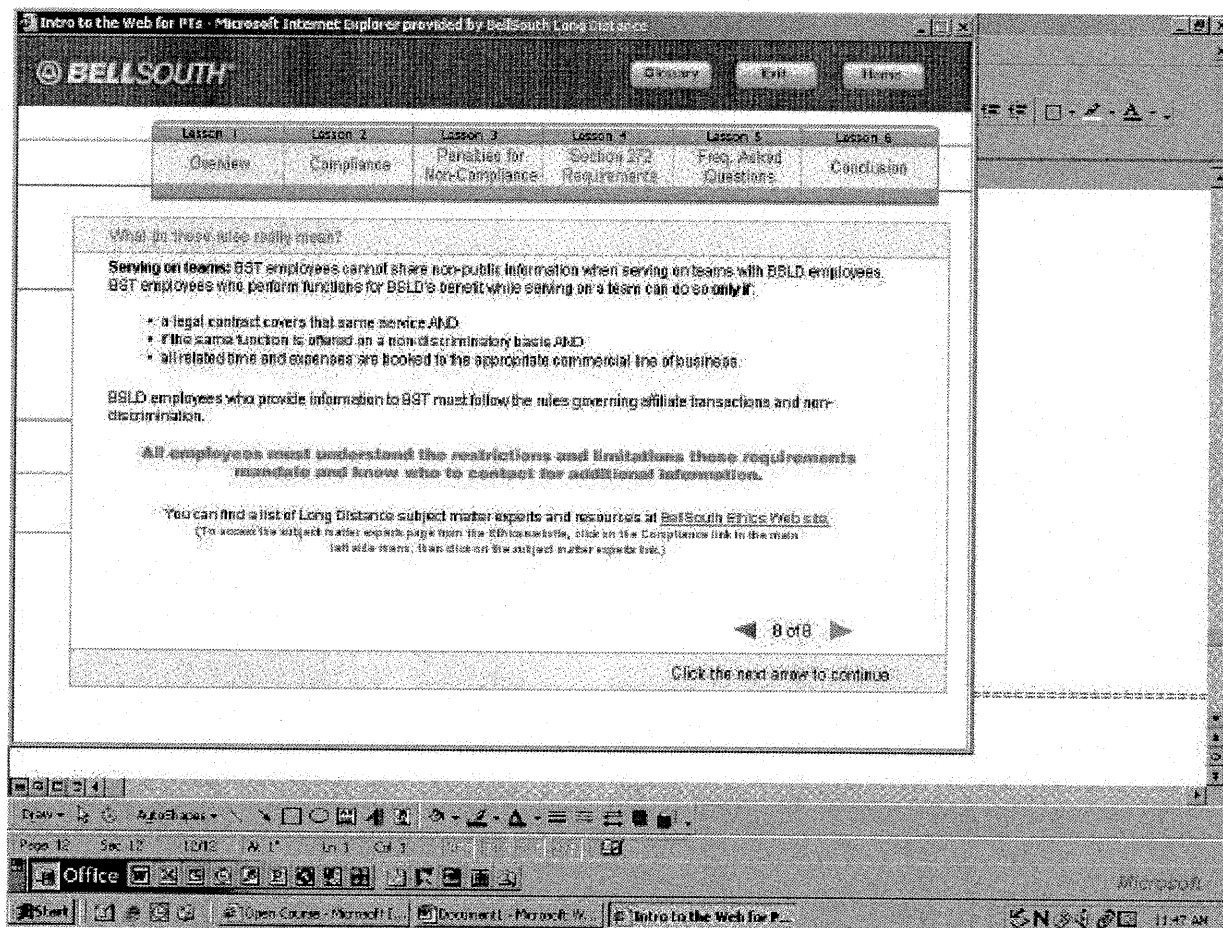
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Freq. Asked Questions

Which BellSouth companies are subject to Section 272 rules?

The long-distance rules in Section 272 govern the relationship between BST and BSLD. The telecommunications industry, however, is highly dynamic. Because other BellSouth companies could offer long-distance service in the future, BellSouth has structured the operations, books, credit and management of those companies so they will be in compliance with Section 272 rules if compliance becomes necessary. Those companies are BellSouth BBE, Inc. (the BellSouth CLEC), BellSouth BBE of Virginia, Inc. and BellSouth Carrier and Professional Services.

How do Section 272 rules apply to BellSouth Business Services (BBS)?

Section 272 rules apply whenever BBS employees represent BST or sell BST services. This includes, but is not limited to, purchasing decisions, contract negotiations, the sale of any BST service to BSLD and the exchange of any BST or BSLD information. These rules do not apply when BBS employees perform other functions.

What non-discrimination rules apply between BST and BSLD?

1 of 1

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Conclusion

BellSouth is committed to winning a substantial share of the long-distance market while complying with all related rules and laws. The best way to accomplish our goals is to make sure we know and follow the requirements of Section 272.



Points to remember:
 BST cannot show preferential treatment to BSLD over any other entity except in permitted joint marketing activities.

All transactions between BST and BSLD must be documented in a written contract and made available for public inspection. The contract must be completed and approved before goods, services, information, facilities, etc., can be provided.

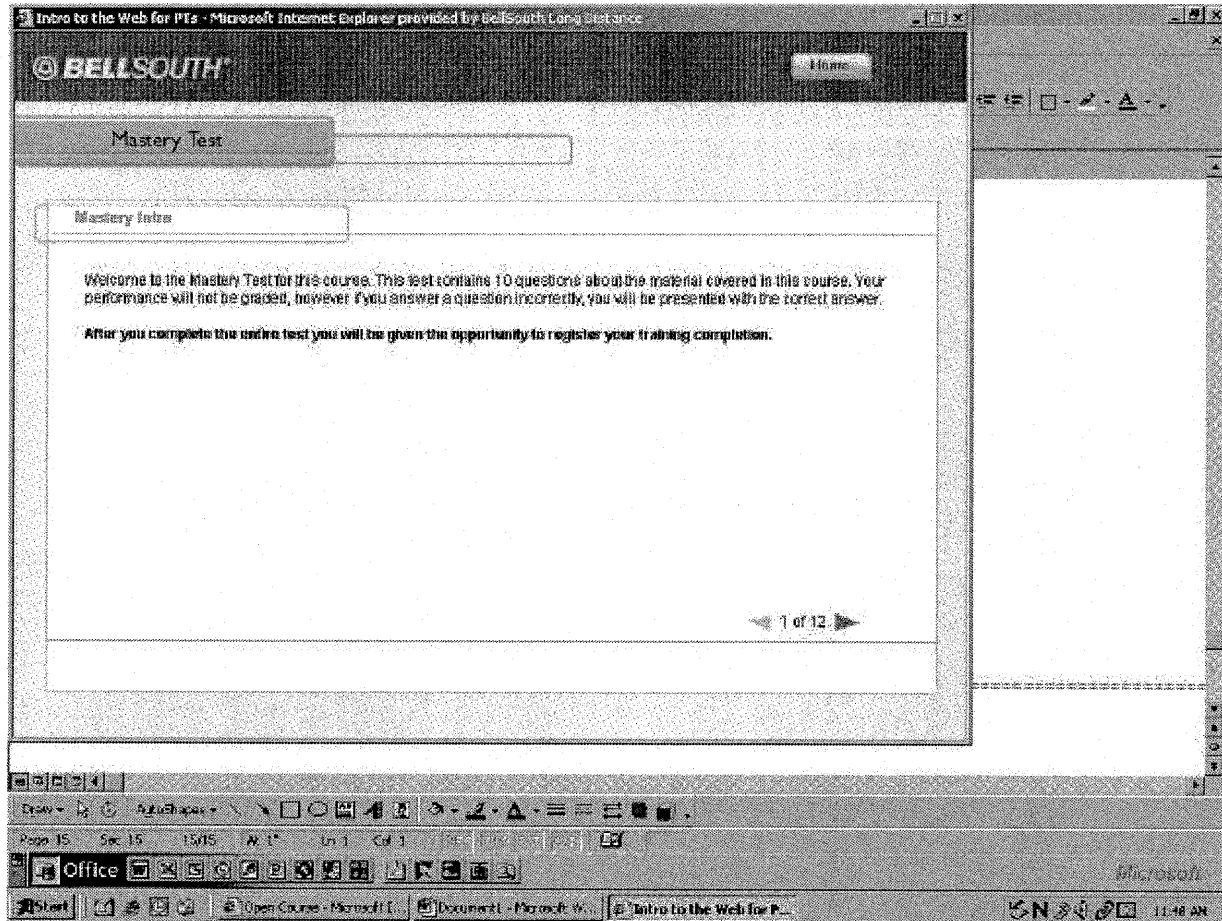
BST will document and keep records of all transactions according to the appropriate Records Information Management requirements. BST employees must appropriately track and record time spent on activities that provide goods or services to BSLD. (If you are not sure if this applies to activities you perform, ask your supervisor or contact your training coordinator.)

Please [click here](#) to enter the mastery test section.

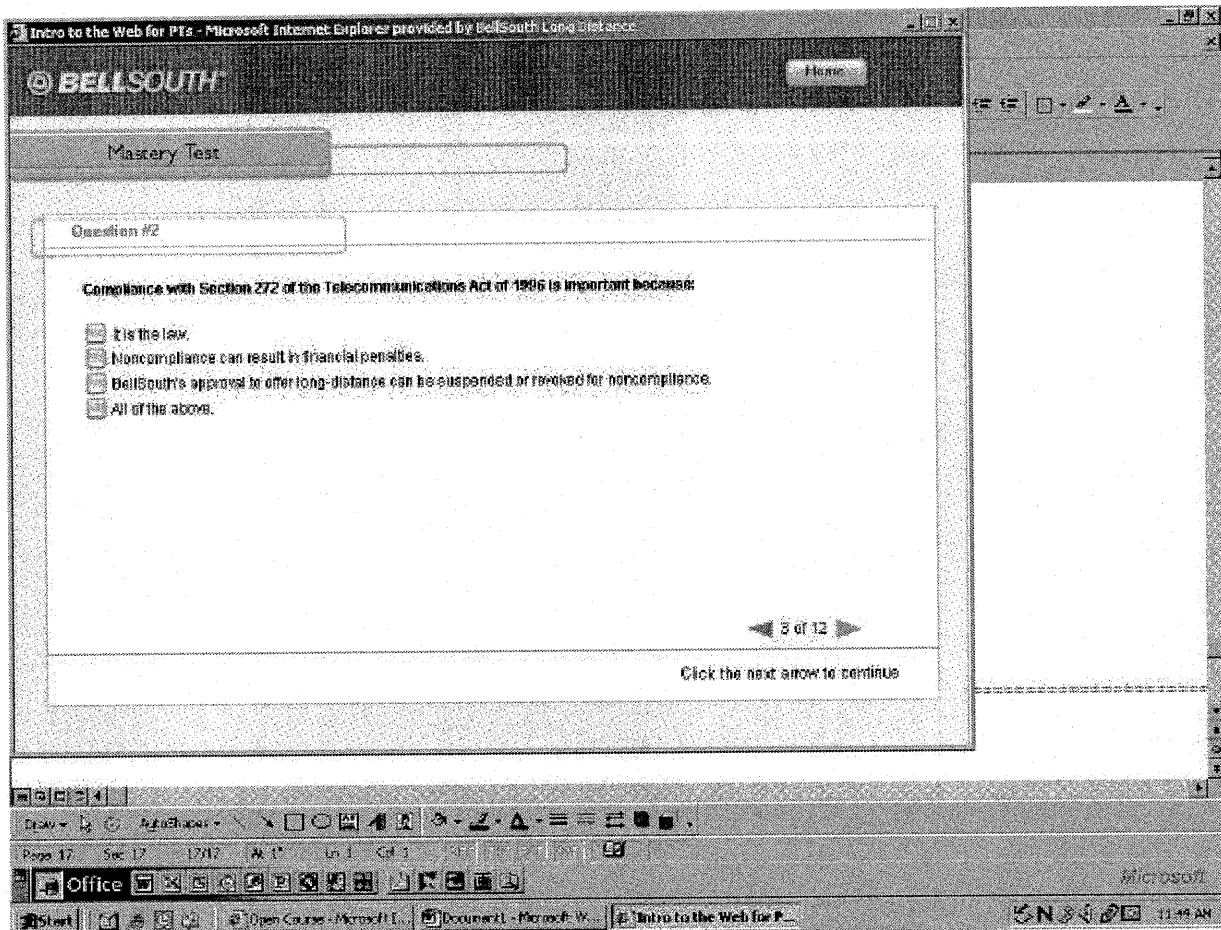
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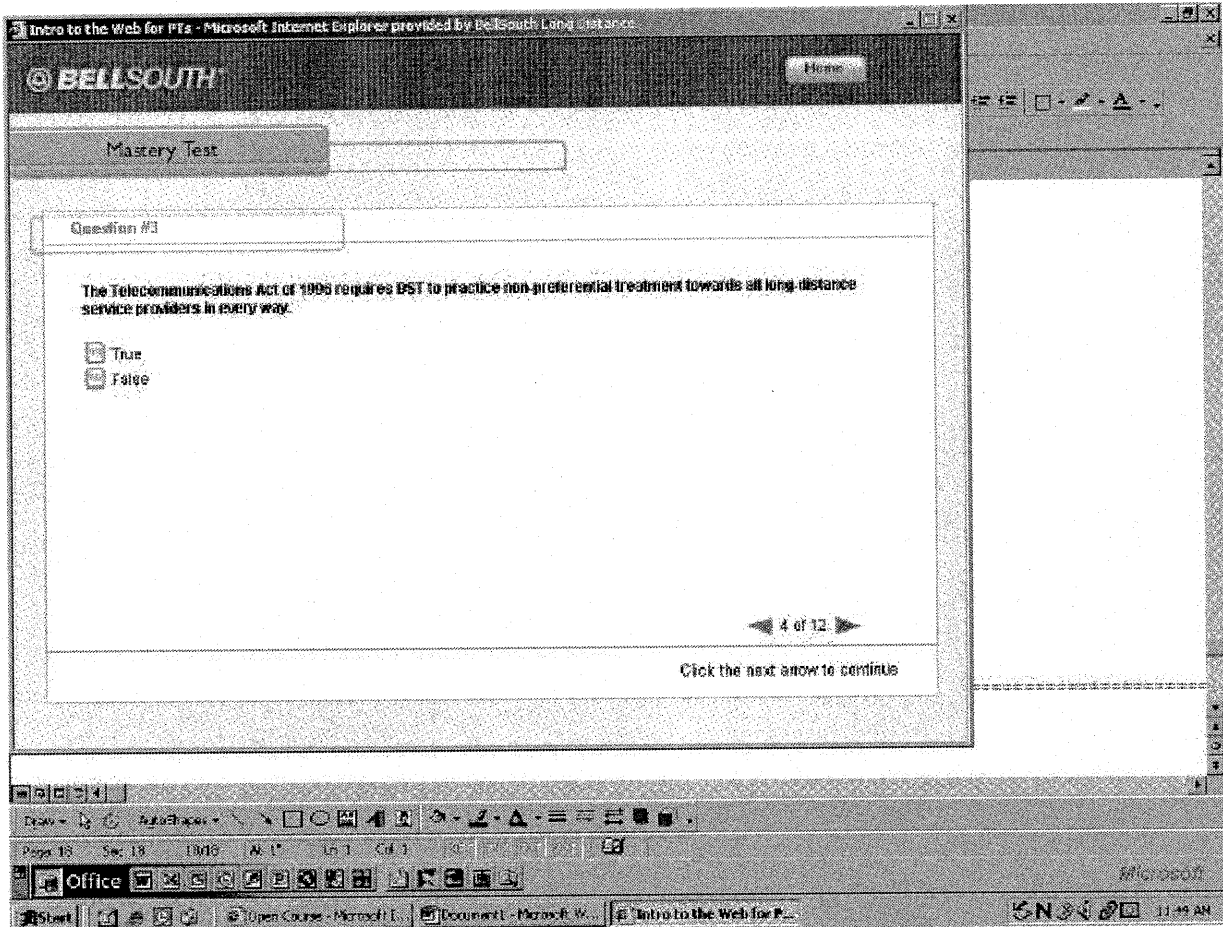
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A screenshot of a Microsoft Internet Explorer window displaying a "Mastery Test" from BellSouth. The page has a dark header with the BellSouth logo and a "Home" button. Below the header, there's a section titled "Question # 1". The question text reads: "From the list below, select all BellSouth affiliates that are either subject to or treated as subject to Section 272 requirements:". There are five checkboxes listed: "BellSouth Telecommunications, Inc. (BST)", "BellSouth Long Distance, Inc. (BSLD)", "L.M. Berry & Company", "BellSouth Carrier and Professional Services (BCPS)", and "BellSouth BBE, Inc. (BBE)". At the bottom of the question area is a "Check my Answers" button. A navigation bar at the very bottom shows "2 of 12" questions. The Windows taskbar at the bottom includes icons for Office applications, a document titled "Document1 - Microsoft W...", and the system clock showing "11:49 AM".





Intro to the Web for PEs - Microsoft Internet Explorer provided by BellSouth Long Distance

BELLSOUTH Home

Mastery Test

Question # 4

From the following list, choose all that apply. BST card

- ☐ jointly own transmission facilities with BSLD
- ☐ jointly own switching facilities with BSLD
- ☐ operate, install or maintain BSLD's switching and transmission facilities
- ☐ respond to BSLD's request for exchange access service in a more timely manner than a similar request from another long-distance provider
- ☐ provide goods, services, facilities or information to BSLD without an approved contract
- ☐ none of the above
- ☐ all of the above

Check my answer(s)

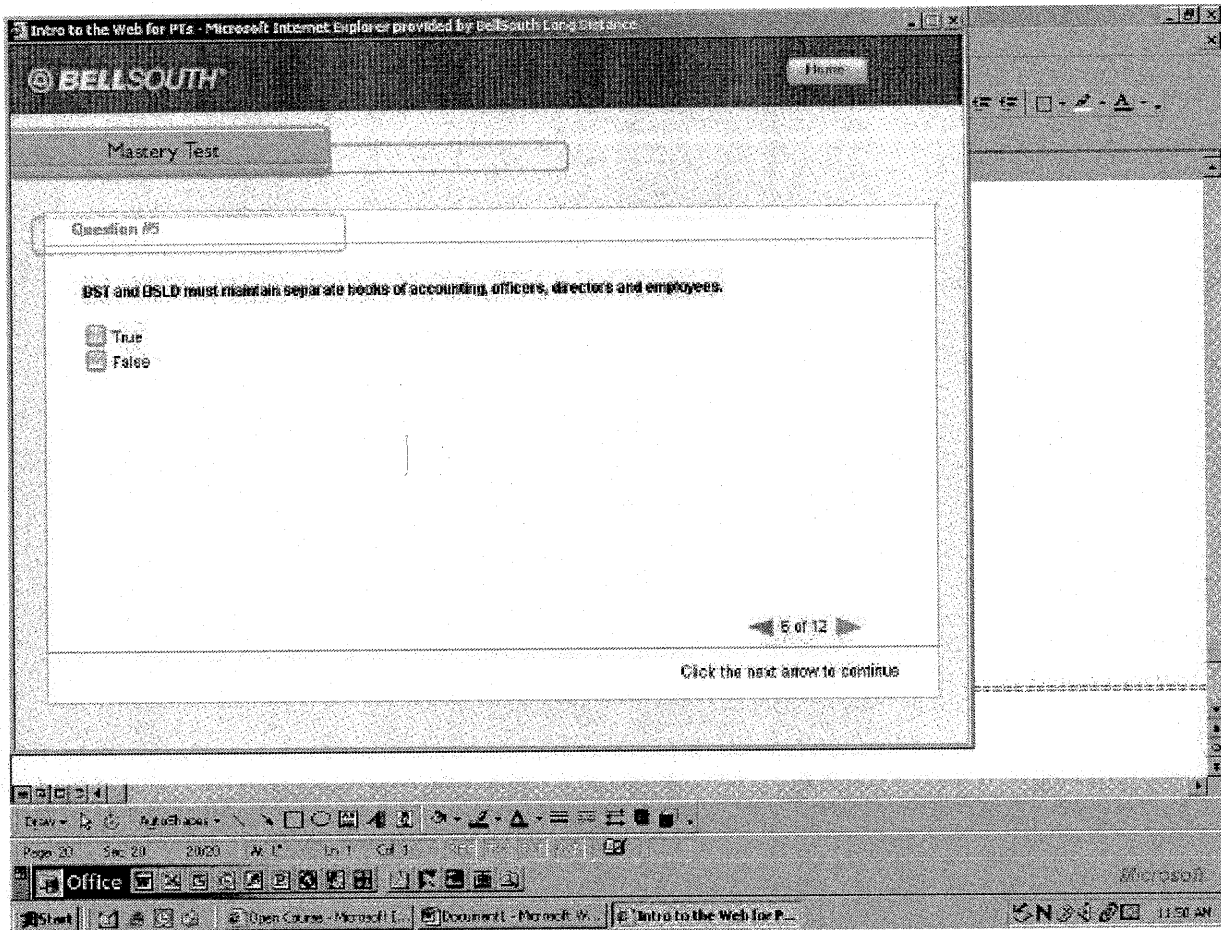
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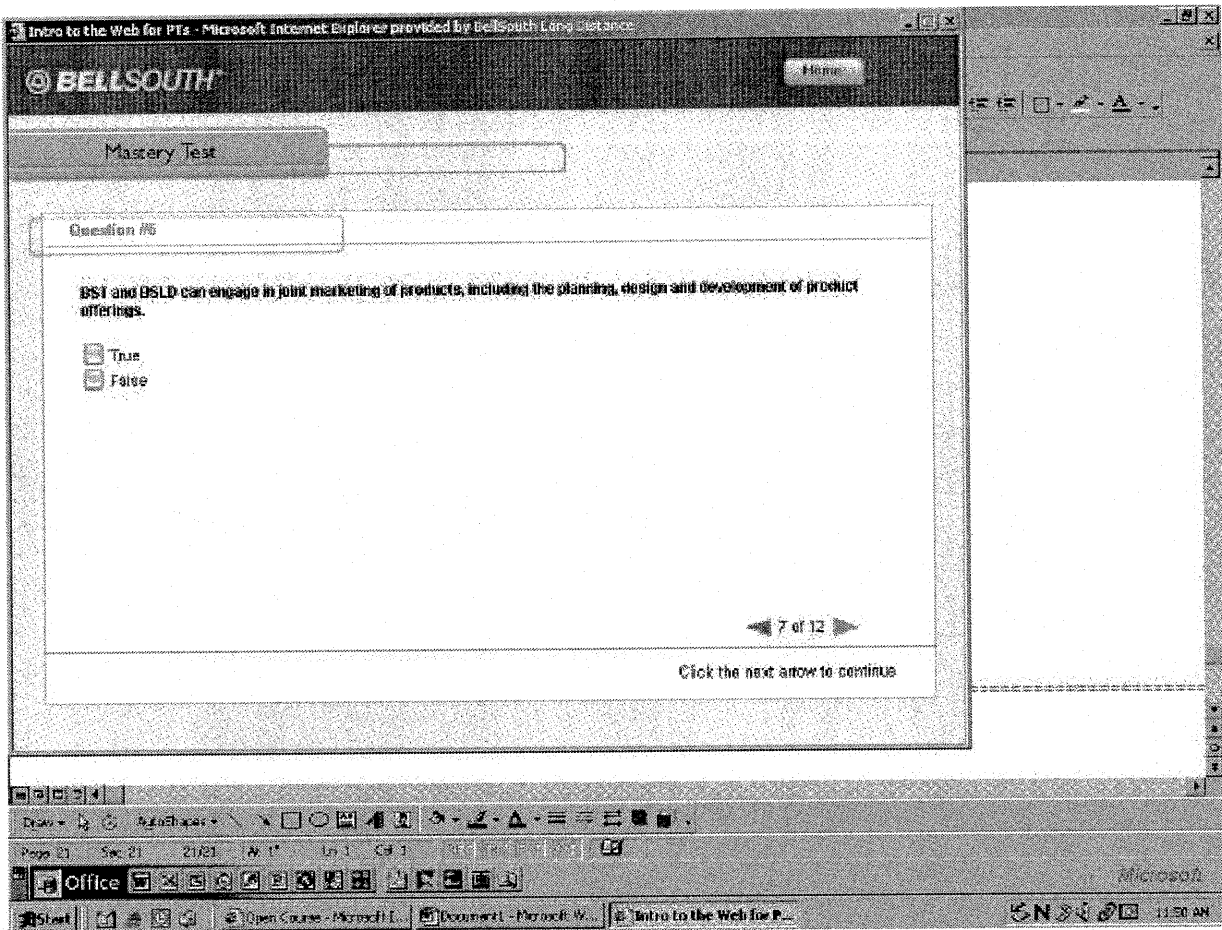
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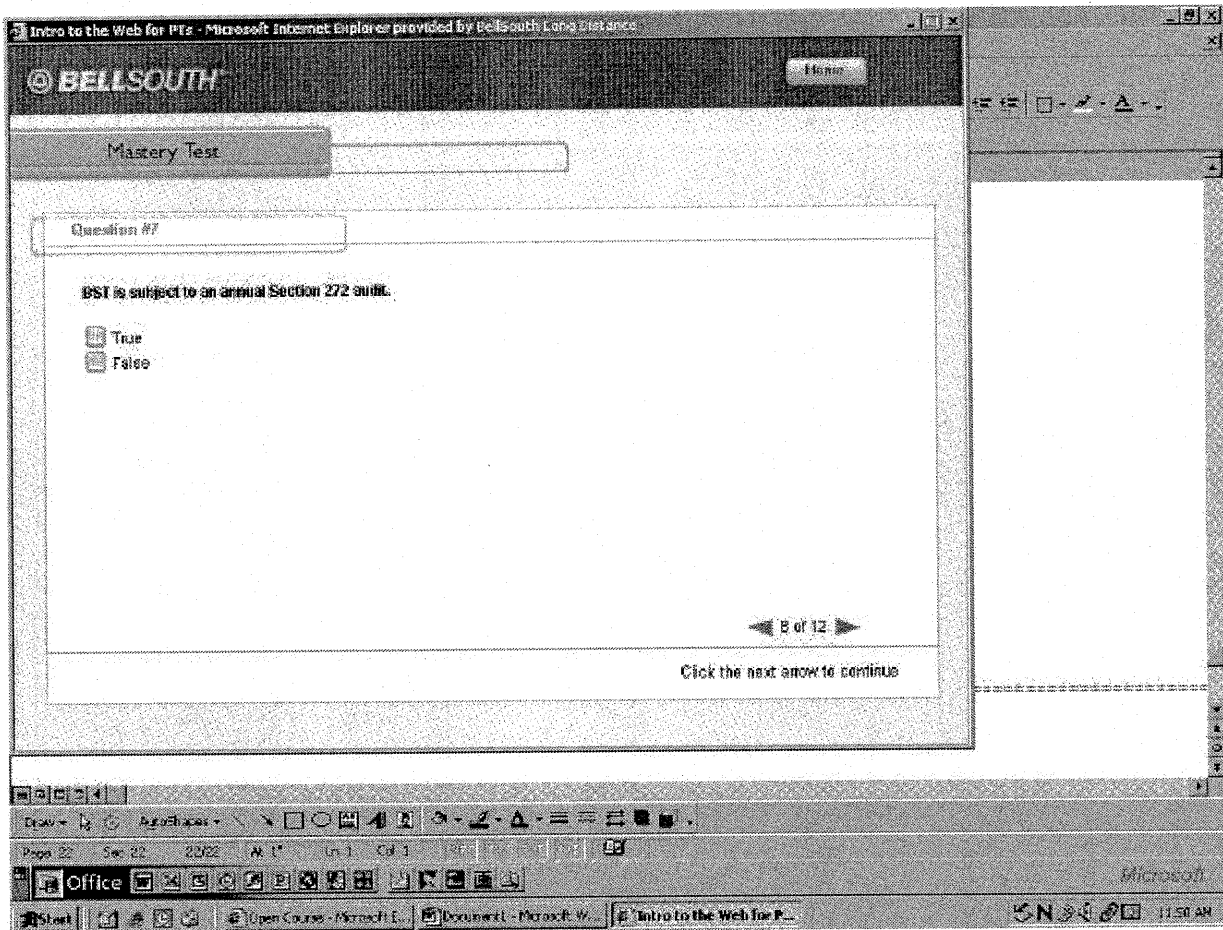
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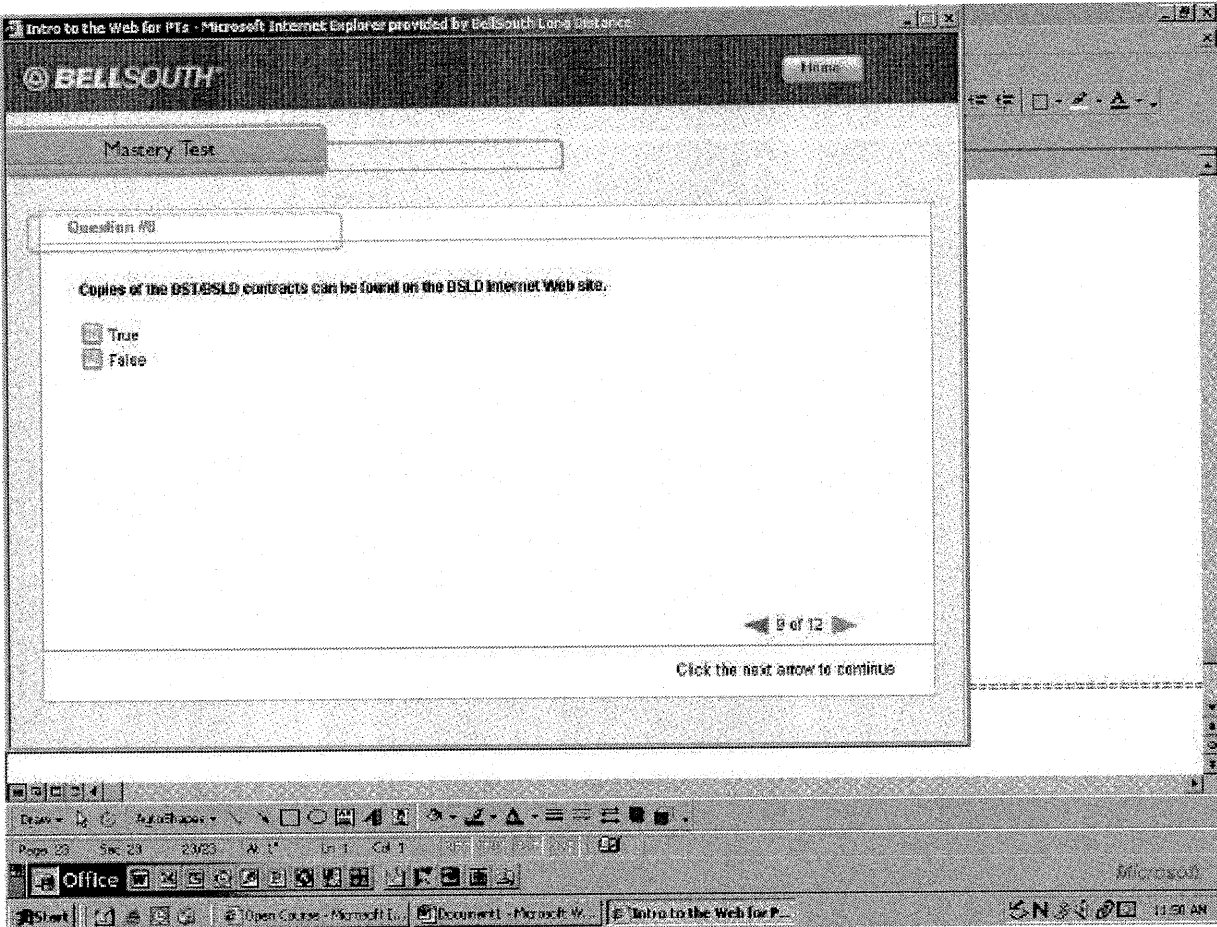
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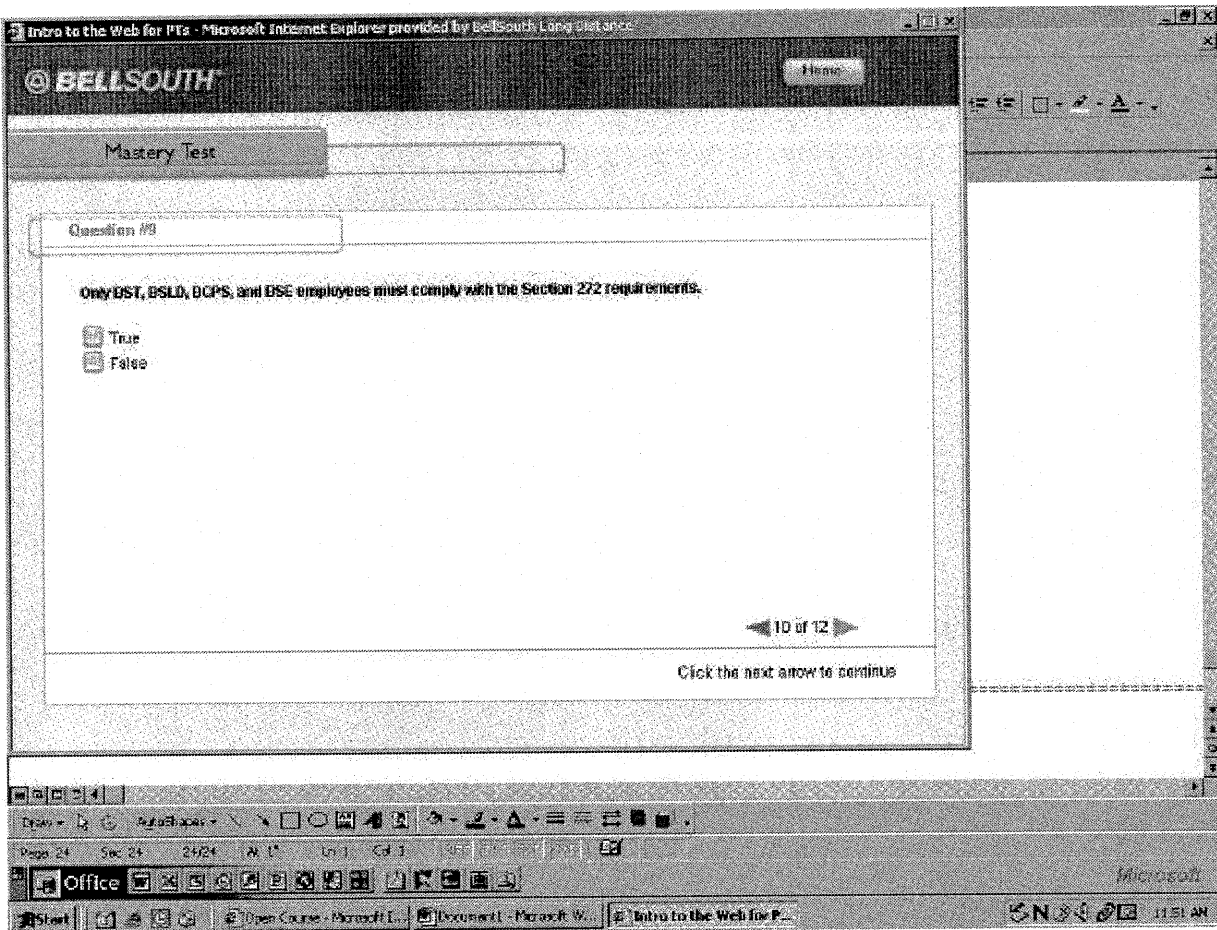
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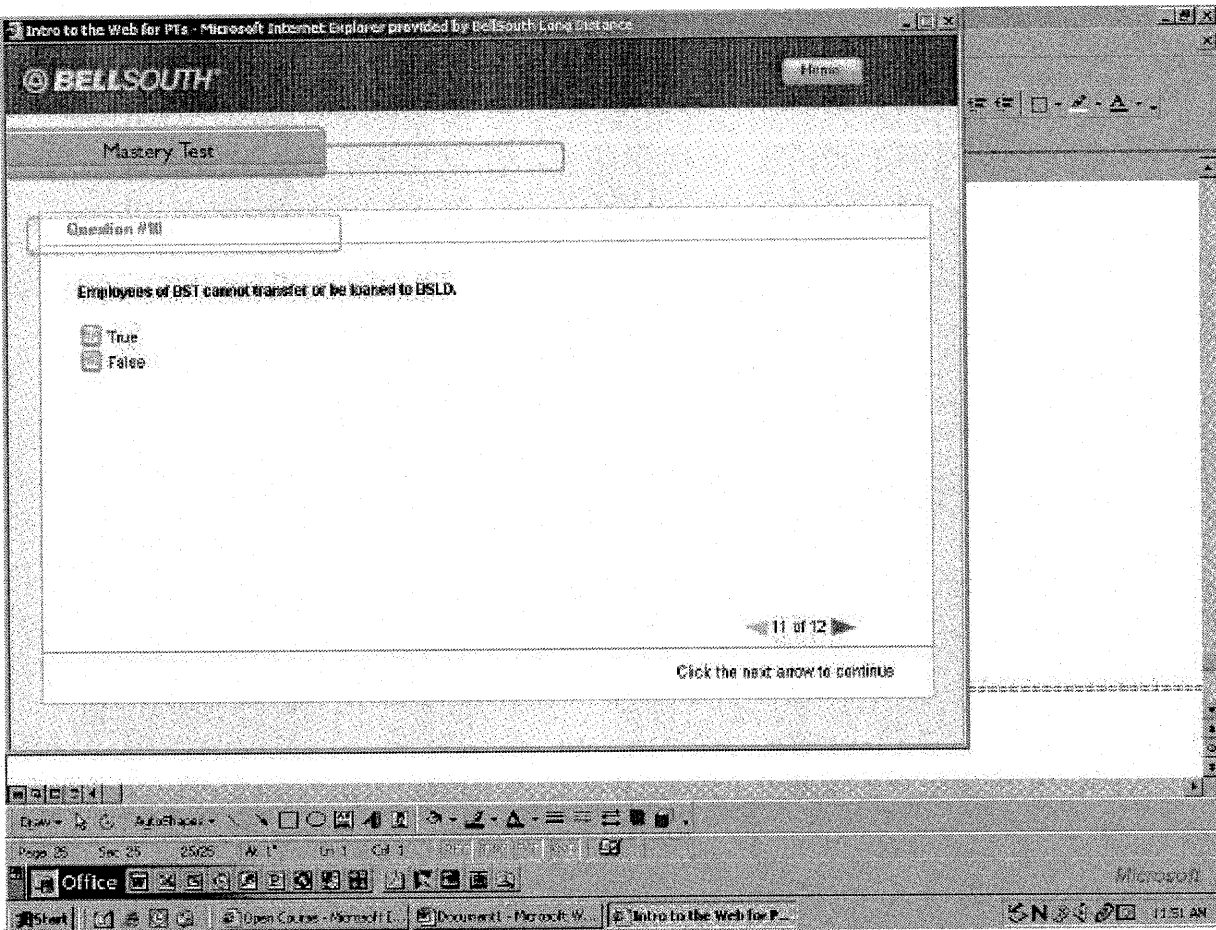


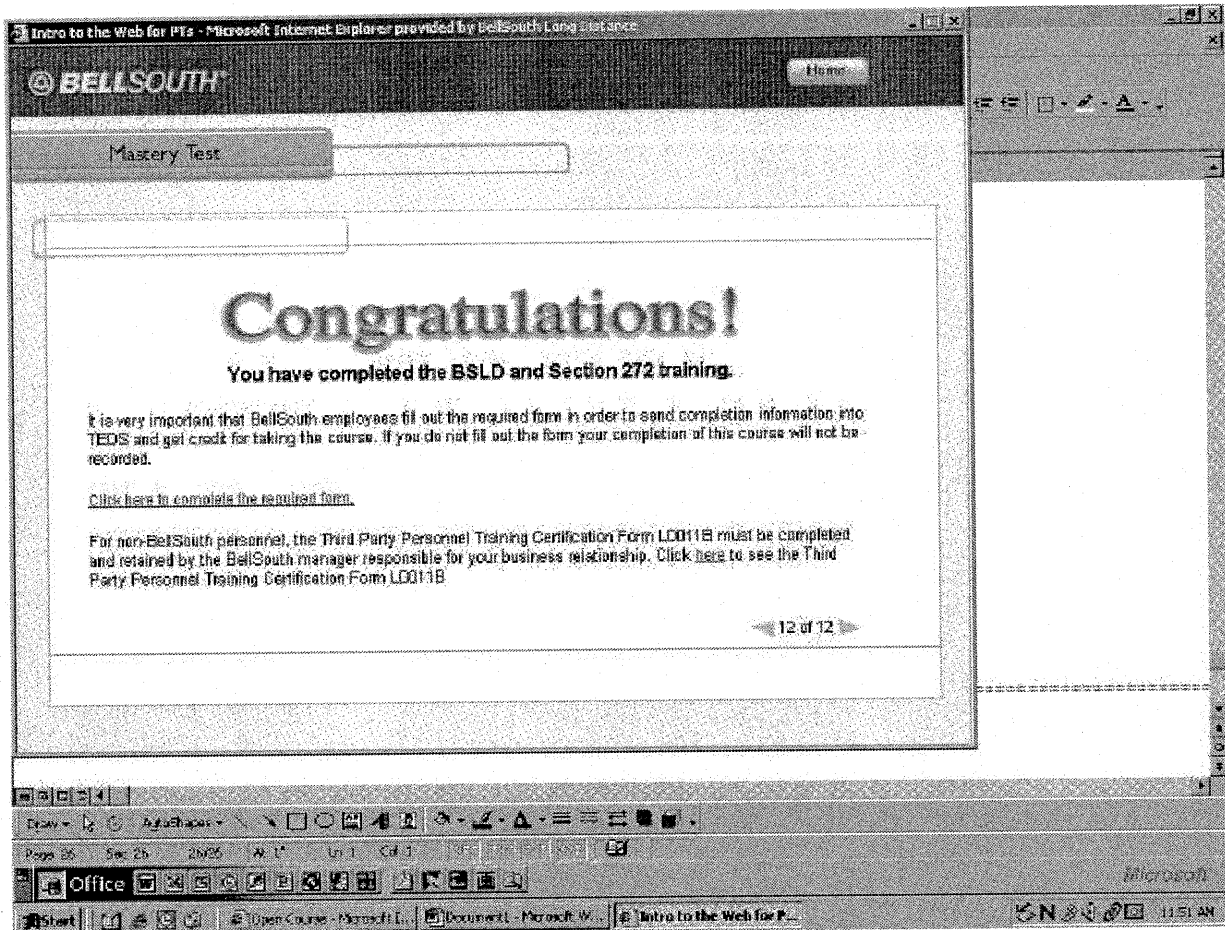












Departments**Business Implementation & Compliance****Section 272 Overview**

Section 272 of the Telecommunications Act of 1996 imposes a separate affiliate requirement on BOC (Bell Operating Company) provision of in-region interLATA services and outlines how the BOC must conduct business with its interLATA affiliate. The 1996 Act also requires that the FCC shall not approve a BOC's Section 271 application to provide interLATA services unless the BOC shows that it will comply with the Section 272 requirements.

2003 PwC/FCC Audit Results

(These results are PROPRIETARY AND CONFIDENTIAL, NOT FOR REPRODUCTION OR DISTRIBUTION, and are PASSWORD PROTECTED for use by AUTHORIZED PERSONNEL only.)

Attachment 7.F

Business Implementation & Compliance**Bus. Implementation & Compliance****Staff****State Certification****Status****BSLD Launch****Schedule****FCC Section 271****Applications****Information & Updates****Competitor Rate****Monitoring****Rates & Services****Information****Antitrust****Section 272 Overview****& BST/BSLD Contracts****CPNI****Legal Department****main MENU****Home****SiteMap**

a (*) indicates a link that takes you off the BINS Intranet

- [Business Implementation & Compliance](#)
- [Staff](#) ▼
- [State Certification Status](#) ▼
- [BSLD Launch Schedule](#)
- [FCC Section 271 Applications](#)
- [Regulatory Orders & Notices](#)
- [Billing Requirements](#)
- [Information & Updates](#) ▼
- [Competitor Rate Monitoring](#) ▼
- [Rates & Services Information](#) ▼
- [Antitrust](#)
- [Section 272 Overview & BST/BSLD Contracts](#) ▼
 - [Section 272 Requirements](#)
 - [Section 272 Transactions](#)
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 - [BST/BSLD Contracts](#)
 - [Section 272 FAQs](#)
- [CPNI, ACI, and Wholesale Information](#)
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- [Legal Department Web Page](#)

Business Implementation & Compliance

Section 272 Requirements

Under Section 272 of the Telecommunications Act of 1996, BellSouth Long Distance, Inc. must comply with the following requirements in order to be granted and maintain federal approval to provide interstate services.

1. **BellSouth Long Distance, Inc. must operate independently of BellSouth Telecommunications, Inc.**
 - No joint ownership of transmission or switching facilities or land/buildings on which such facilities are located.
 - No provision by one of operating, installation and maintenance functions related to the other's facilities.
 - May jointly own other property, such as office space and equipment used for marketing/administrative services.
2. **BellSouth Long Distance, Inc. and BellSouth Telecommunications, Inc. must maintain separate books, records, and accounts.**
 - BSLD must maintain separate books of account according to General Accepted Accounting Principles (GAAP).
 - BST must maintain separate books of account according to Part 32 of the FCC's rules.
3. **BellSouth Long Distance, Inc. and BellSouth Telecommunications, Inc. must have separate officers, directors, and employees.**
 - A person may not serve at the same time as an officer, director, or employee of both BSLD and BST.
4. **BellSouth Telecommunications, Inc. may not guarantee credit for BellSouth Long Distance, Inc.**
 - BSLD may not incur credit in any manner that on default would permit a creditor to have recourse to BST's assets.
5. **BellSouth Long Distance, Inc. must conduct all transactions with BellSouth Telecommunications, Inc. on an arm's length basis, reduced to writing and available for public inspection.**
 - Includes all transactions between BSLD and BST, including joint marketing activities.
 - Arm's length requirement met if BSLD and BST follow existing FCC affiliate transaction and accounting rules for their transactions.
 - Written descriptions of all transactions between BSLD and BST must be posted on the BellSouth Corporate internet home page.
 - Copies of all transaction writings must be maintained at BST's corporate offices for public inspection.
6. **BellSouth Telecommunications, Inc. must account for all transactions with BellSouth Long Distance, Inc. in accordance with FCC approved accounting principles and rules.**
 - All BST/BSLD transactions will continue to be governed by the FCC's cost allocation and affiliate transaction rules.
 - Amounts booked by BST in its regulated accounts will vary depending on the nature of services provided and the particular valuation standard applicable to the transaction.
7. **BellSouth Telecommunications, Inc. may not discriminate between BellSouth Long Distance, Inc. and any other unaffiliated entity in the provision or procurement of goods, services, facilities, and information, or in the establishment of standards.**
 - With the exception of joint marketing services, BST, upon request, must provide the same services to all competitive IXCs with the same terms, conditions, and rates.
 - BST must respond to all requests by other carriers for facilities in the



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same nondiscriminatory timeframe.

- BST may not provide any facilities, services, or information in its provision of exchange access to BSLD unless BST makes available such facilities, services, and/or information to other IXC's on the same terms and conditions.

Attachment 7.F

Business Implementation & Compliance

Section 272 Transactions

Under Section 272 of the Telecommunications Act of 1996 BellSouth Long Distance, Inc. is required to post all transactions between BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc. on the BellSouth internet web site within 10 calendar days of the date of the transaction.

In conjunction with the Section 272 requirement, BellSouth Long Distance, Inc. has developed internal processes, related forms, and definitions to ensure that this Section 272 requirement is met. Company employees should refer to the process, process flow, definitions, and forms set forth when transacting business with BellSouth Telecommunications, Inc.

- [Process for Section 272 Transactions](#)
- [Process Flow for Section 272 Transactions](#)
- [Transaction Summary Definitions](#)
- [Transaction Summary Form](#)
- [Process for Completed/Terminated Section 272 Transactions](#)
- [Process Flow for Completed/Terminated Section 272 Transactions](#)

All questions concerning Section 272 should be referred to:

Mary Jean	Section 272 Compliance Director	(770) 352-3077
Dennis		
Robin Taylor	Section 272 Contract Manager	(770) 352-3101
Hank Anthony	General Counsel	(770) 352-3116



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Business Implementation & Compliance Section 272 Compliance Training



business implementation & COMPLIANCE

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All BellSouth Long Distance Services ("LDS") personnel *are required* to complete Section 272 Compliance training.

New LDS employees are required to complete Section 272 Compliance training within 30 days of hire or transfer to a LDS company or prior to engaging in any BellSouth Telecommunications, Inc. ("BST") activity, whichever comes first. Additionally, contractors, vendors, and LDS representatives who are likely to interface with BST on behalf of LDS should complete Section 272 Compliance training. Retraining of LDS employees, its contractors, vendors, and representatives is required on a periodic basis. Notification of retraining will be disbursed when required.

The Telecommunications Act of 1996 laid out strict rules governing the relationship between BellSouth Long Distance, Inc. and BST. It is important that each employee understand the critical importance of compliance with these Section 272 rules. As part of the LDS effort to educate employees on the Section 272 rules, LDS has established intranet-based training for LDS employees to use for completing the *required* Section 272 Compliance training. This training is available on the LDS Online Training system and complies with the FCC's rules.

Contractors, vendors, and representatives of LDS who engage in or have the potential to engage in activities with BST on behalf of LDS *are also required* to receive Section 272 Compliance training. LDS supervisors of contractors, vendors, and representatives of LDS are responsible and must make arrangements to ensure Section 272 Compliance training of these individuals. Supervisors should direct such individuals to the LDS network drive G:\anyone\ldstraining for a copy of the required Section 272 Compliance training. Upon completion of the Section 272 Compliance training by these individuals, the LDS supervisor should document the training in a written format or may use the Third-Party Personnel Section 272 Compliance Training Certification form. The supervisor should maintain the documentation locally for his/her own records.

Questions concerning Section 272 rules and employee training should be directed to Mary Jean Dennis 770-352-3077.

Questions concerning Section 272 Compliance online training should be directed to Gwen Wilburn at 678-443-3921.

Access Section 272 Compliance Training (LD011B)

Attachment 7.F



change existing service

establish new service

move existing service

residential
servicessmall business
serviceslarge business
services

my account

about us

view
billpay
billorder
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BellSouthcontact
us
[Home](#) > [Corporate Information Center](#) > [Public Policy](#)

Public Policy

Section 272 Transactions

This site contains information about the transactions between BellSouth Long Distance, Inc. (BSLD) and BellSouth Telecommunications, Inc. (BST), including a brief summary of each transaction and a link to the text of the agreements. Information will remain posted on this site for at least one year after the transaction is completed or terminated. This site also contains information about the process by which BellSouth finalizes and posts such transactions to this site.

Note: You will need the Adobe Acrobat Reader 4.0 or higher to view the following documents. Please download a free copy of the reader from the [Adobe Web Site](#).

Process for Section 272 Transactions

Process Flow for Section 272 Transactions

Process for Completed or Terminated Section 272 Transactions

Process Flow for Completed or Terminated Section 272 Transactions

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Active Transactions

Effective Date

Affiliate Long Distance Service Agreement

02-01-01

Amendment 1

11-08-02

Amendment 2

09-16-03

Extension

01-09-03

Billing and Collection Services Package Clearinghouse Operating Agreement

03-05-03

Addendum 1

12-03-03

Collocation Agreement

10-31-03

Coordination Agreement

02-01-01

Amendment 1

06-06-01

Joint Message Ready-Unbillable Study-Letter of Agreement

04-27-03

Labor Contract Negotiations and Support Services Agreement

08-29-02

Amendment 1

02-12-03

<u>Amendment 2</u>	07-15-03
<u>Local Carrier Services Center Services Agreement</u>	10-09-02
<u>Marketing and Sales Agreement</u>	05-02-02
<u>Amendment 1</u>	07-22-02
<u>Amendment 2</u>	09-30-02
<u>Amendment 3</u>	04-07-03
<u>Amendment 4</u>	10-07-03
<u>Network Management Memorandum of Understanding</u>	03-14-03
<u>Professional Services Agreement</u>	11-05-03
<u>Provision of National Directory Assistance Services</u>	07-31-00
<u>Amendment</u>	12-06-00
<u>Purchase Agreement No. 030010SH for Products and Services (Executed 11/18/03 - Effective 1/1/04)</u>	01-01-04
<u>Regulatory, Legal, and Other Services Agreement</u>	04-01-02
<u>Amendment 1</u>	09-08-02
<u>Amendment 2</u>	10-18-02
<u>Amendment 3</u>	03-03-03
<u>Amendment 4</u>	09-03-03
<u>Services Agreement</u>	06-30-03
<u>Addendum 1</u>	08-26-03
<u>Slamming Investigation and Reporting Services Agreement</u>	04-09-02
<u>Subscription Fraud Information Sharing Agreement</u>	09-24-01
<u>Amendment 1</u>	05-29-02
<u>Amendment 2</u>	08-14-02
<u>Tariffed Services</u>	Various
<u>Trouble Reporting and Referral Services Agreement</u>	08-15-03
<u>Amendment 1</u>	10-20-03
Terminated Transactions	Completion Date
<u>Billing and Collection Service Package Clearinghouse Operating Agreement</u>	03-01-03
<u>Amendment 1</u>	03-01-03
<u>Addendum 1</u>	03-01-03
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<u>Addendum 3</u>	03-01-03
<u>Addendum 4</u>	03-01-03
<u>Amendment 2</u>	03-01-03
<u>Contract Provisions for BSLD Daily Usage File</u>	06-28-03
<u>Customized Training Agreement</u>	06-20-02
<u>Amendment 1</u>	06-20-02
<u>End to End Test Agreement</u>	06-15-03
<u>Amendment 1</u>	06-15-03
<u>Amendment 2</u>	06-15-03
<u>Amendment 3</u>	06-15-03
<u>Amendment 4</u>	06-15-03
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<u>Amendment 12</u>	06-15-03
<u>Amendment 13</u>	06-15-03
<u>Amendment 14</u>	06-15-03
<u>Facility Use Agreement</u>	06-30-03
<u>Amendment 1</u>	06-30-03
<u>Amendment 3</u>	06-30-03
<u>Amendment 4</u>	06-30-03
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<u>Amendment 25</u>	06-30-03
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<u>InterLATA End-to-End Test Agreement</u>	06-15-03
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<u>International Call Reports Agreement</u>	04-01-03
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<u>Marketing and Sales Agreement</u>	05-24-02
<u>Amendment 1</u>	05-24-02
<u>Mechanized Automated Message Accounting Testing & Validation Coordination Agreement</u>	01-15-03
<u>Network Maintenance Center & Network Management Center Agreement</u>	03-13-03
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<u>Physical Collocation Master Agreement</u>	10-31-03
<u>Trouble Reporting and Referral Services Agreement for Toll Free Services</u>	08-17-03
<u>Amendment 1</u>	08-17-03
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<u>Amendment 3</u>	08-17-03
<u>Wavelength Service End-To-End Test Agreement</u>	11-29-02
<u>Wavelength Service End-to-End Test Agreement - Phase 2</u>	03-12-03
<u>Workcenter Interface Agreement</u>	06-28-03

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Section 272 Transactions between BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc. are available for public inspection by contacting BellSouth Telecommunications, Inc.'s Manager-Regulatory, Cheryl Laskowski, at (404) 330-0487.

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Departments**Business Implementation & Compliance
Section 272 FAQs**

Under Section 272 of the Telecommunications Act of 1996, BellSouth Long Distance, Inc. must comply with certain requirements in order to obtain federal approval to provide interstate services. Listed are the answers to some frequently asked questions about the Section 272 requirements.

Frequently Asked Questions:

- Which BellSouth companies are subject to the 272 long distance rules?
- How do the 272 rules apply to BellSouth Business Systems (BBS)?
- What are the applicable non-discrimination rules between BSLD and BST?
- What is meant by "joint marketing" between BSLD and BST?
- Do the 272 requirements prevent BST from joint marketing BSLD's services?
- Can BSLD be located in the same buildings as BST?
- Can a BSLD employee transfer to BST?
- Can a BSLD employee be loaned to BST?
- Can I serve on a team with BST?
- Does every transaction between BSLD and BST require a contract?
- How do I know if BSLD has a contract with BST for a particular activity?
- How do I get a new contract with BST?
- How do I get additional information on permitted joint marketing?
- Does Executive Directive No. 8 also apply to the 272 transactions?
- Do the 272 requirements apply to staff personnel?

Questions and Answers:

- Q.** Which BellSouth companies are subject to the 272 long distance rules?
- A.** The long distance rules govern the relationship between BSLD and BST. The telecommunications industry, however, is highly dynamic. As a consequence, there is the possibility that certain other BellSouth companies that currently do not have plans to offer long distance service may nonetheless do so in the future. BellSouth has decided to structure the operations, books, credit, and management of those companies in accordance with the long distance rules, and to otherwise position those companies so that they are in compliance with the long distance rules upon immediate notice that compliance was necessary. Those companies are BellSouth BSE, Inc. (the BellSouth CLEC), and BellSouth Carrier Professional Services, Inc. (BCPS). BellSouth has also decided to follow the same policy for BSLD/Qwest Customer Resource Center (CRC).

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- Q.** How do the 272 rules apply to BellSouth Business Systems (BBS)?

- A.** Whenever BBS employees represent BST or sell BST services the 272 rules apply. When BBS employees perform any other function the 272 rules do not apply.

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a (*) indicates a link
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Q. What are the applicable non-discrimination rules between BSLD and BST?

- A.** BST may not discriminate between BSLD and other IXC's in the provision or procurement of goods, services, facilities, and information, or in the establishment of standards. The only exception to these non-discrimination rules is for joint marketing.

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Q. What is meant by "joint marketing" between BSLD and BST?

- A.** Joint marketing includes advertising, customer inquiries, sales functions, and ordering. Planning, design, and development of BSLD's product offerings are not part of joint marketing.

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Q. Do the 272 requirements prevent BST from joint marketing BSLD's services?

- A.** No, BST is permitted to joint market its local services and BSLD's services subject to appropriate accounting and other requirements. BST is allowed to market BSLD's service during inbound calls while also offering to read, in random order, the names and, if requested, the telephone numbers of all available interexchange carriers.

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Q. Can BSLD be located in the same buildings as BST?

- A.** BSLD and BST can share office space but they cannot share ownership of transmission or switching facilities. Shared BST office space would constitute a service subject to the non-discrimination obligation provisions.

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Q. Can a BSLD employee transfer to BST?

- A.** Yes, but the employee is not permitted to bring BSLD proprietary information to his/her new job.

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Q. Can a BSLD employee be loaned to BST?

- A.** Yes, so long as rules governing non-discrimination, accounting for nonregulated services, if applicable, and affiliate transactions are all followed.

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Q. Can I serve on a team with BST?

A. Yes, but you are not permitted to share non-public information with BST while serving on any such team. It should also be noted that if you perform functions for BST's benefit while serving on this team, you may have provided a service subject to the non-discrimination obligation provisions. Teams that have representatives of BSLD and BST should be part of efforts under the responsibility of the service affiliate, such as BellSouth Corporation or BASC.

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Q. Does every transaction between BSLD and BST require a contract?

A. Yes.

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Q. How do I know if BSLD has a contract with BST for a particular activity?

A. All contracts, agreements, and transactions between BSLD and BST are posted on the BellSouth Corporate web site at <http://bellsouthcorp.com/policy/transactions/>.

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Q. How do I get a new contract with BST?

A. Contact the BSLD Carrier Relations department.

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Q. How do I get additional information on permitted joint marketing?

A. Contact the BSLD legal department.

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Q. Does Executive Directive No. 8 also apply to the 272 transactions?

A. Yes. Contact the BSLD Finance department for additional information.

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Q. Do the 272 requirements apply to staff personnel?

A.

Yes, the 272 requirements apply to every BSLD employee. All staff personnel, including administrative services personnel, are subject to the same requirements. This also includes contract employees working in any capacity for BSLD.

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Project Journey

BSHQ Allocation/Project Accounting Integrated Process

Date: August 30, 1999
Author: Tammy H. Messier

Updated: Oct. 8, 1999 (S. Reichard)

OVERVIEW

BSHQ incurs cost on its own behalf and on behalf of its subsidiaries. These costs result from a variety of activities including corporate oversight, general subsidiary support and specific services performed on a discretionary basis for the subsidiaries.

Based on the nature of the expenses, costs incurred at BSHQ will either be retained at BSHQ or distributed to the subsidiaries through the cost allocation or project billing processes. The cost allocation and project accounting processes were designed in compliance with the joint costing and affiliated transactions requirements of Part 32 and 64 of the Federal Communications Commission's (FCC) rules and regulations. The cost allocation process separates, assigns and bills to the subsidiaries the costs associated with their corporate work functions and those project costs associated with subsidiary discretionary undertakings. Most of the specific discretionary services are billed to the appropriate subsidiary via the project billing process.

BSHQ costs, which are billed to subsidiaries monthly, are apportioned based upon departmental inputs and other cost causative data, e.g., subsidiary net operating expenses or headcount. The methodologies used in the cost allocation process to assign common costs to the proper subsidiary depend upon whether the cost can be directly or indirectly attributed to a specific activity. When costs cannot be directly assigned, they must be grouped into homogeneous pools and apportioned based on an appropriate allocation methodology. For example, costs incurred by the Advertising group that are neither retained nor directly assigned may be allocated based upon the relative marketing costs incurred by the subsidiaries.

COST CATEGORIZATION

For billing purposes, BSHQ's costs are broken down into six types: subsidiary project, other affiliate project, flow-through, retained, corporate services and exception. Each of these cost types are further described below:

Subsidiary Project Billing

Subsidiary funded projects are defined as discretionary services provided by BSHQ, at the request of the subsidiary's management, that produce specific benefits for the subsidiary requesting the service. For example, billing for payroll and corporate books services are considered subsidiary projects.

In the current operating environment, expenses are coded to all projects via the accounts payable, time reporting and general ledger (GL) systems. These direct project costs are captured and fed into the project billing system, where departmental and corporate overhead rates are applied. In addition, the project billing system generates the appropriate journal entries and the bills to be sent to each subsidiary. Total project billing is netted for each subsidiary, and in most cases funds are electronically transferred. Treasury either handles the net receivable or payable through the appropriate journal entries or, in some cases, the bills are paid via the subsidiary's accounts payable process.

Other Affiliate Project Billing

Other affiliate projects are defined as costs incurred by BSHQ in performing services that are specifically provided for affiliated parties, not fully-owned, but still considered members of the Corporate Family. This includes companies where BellSouth owns 10% or more of the investment, entities not owned, but effectively controlled or managed by BellSouth, or entities where BellSouth employees by virtue of their BellSouth employee status, exert significant influence.

For most of these projects, there is no difference from the subsidiary project billing process when determining the amount billed. Like subsidiary projects, the direct project costs are captured and fed into the project billing system, where departmental and corporate overhead rates are applied as appropriate (overhead for these affiliate costs are retained.) However, overhead cannot be legally applied to some of these projects such as PAC and trust related projects. Therefore, these projects are not billed overhead. The project billing system generates the appropriate journal entries and the bill. The bill is sent directly to the company. The company, in turn, must remit payment to BSHQ.

Flow-through Billing

Flow-through billing is used to recapture expenses paid by BSHQ directly to external vendors on behalf of a subsidiary. All flow through billing is processed through the accounts payable system and since this explicitly excludes salary and wage expenses from flow-through billing, no overhead is applied. Flow-through expenses are billed directly to the appropriate subsidiary by project billing. Corporate insurance is an example of an expense that is flow through billed.

These direct costs are captured and fed into the project billing system; however, as stated above departmental and corporate overhead rates are not applied to flow through expenses. The project billing system generates the appropriate journal entries and the bills to be sent to each subsidiary. The flow-through expenses are included in the netting process previously discussed. Treasury either handles the net receivable or payable through the appropriate journal entries or, in some cases, the bills are paid via the subsidiary's accounts payable process.

Retained Costs

Retained costs are costs incurred by BSHQ where assignment of these costs to a subsidiary would not be appropriate. Costs are retained at BSHQ by establishing projects that are not billed to the subsidiaries, by including an allocation factor for BSHQ when allocating the costs in a cost pool (in essence retaining a percentage of a cost pool on BSHQ's books), or by specific account identification. Corporate development expenses are examples of retained costs identified through projects, and interest and board of director's expenses are examples of retained costs identified by account.

Retained projects and allocated costs are loaded for departmental and corporate overhead if salary and wage costs are captured by the respective project or cost pool. However, costs specifically identified at the account level would not be

loaded for overhead since there are no salary and wage dollars on which to apply the overhead rates. Current policy precludes salary and wage accounts from being designated as retained accounts. As the title implies, retained costs remain on BSHQ's books.

General Services

General service costs represent those functions performed by BSHQ as part of its "holding company" ownership and oversight responsibilities. This includes the cost of services that provide benefit to several or all of the consolidated BellSouth companies, recurring costs with no identified end-date, and costs where no appropriate direct attribution methodology can be identified. These costs are allocated only to the BellSouth consolidated companies. Currently, a factor reference number (FRN) is assigned to every corporate responsibility code (RC). The FRN identifies the allocation methodology assigned to the respective RC/account combination.

Cost identification projects are projects established solely for tracking and reporting purposes. Cost captured as cost identification projects are also allocated through the FRN process and are included in the general services bill. The allocation system creates the appropriate journal entries and passes them to GL. After processing is completed, general services costs are passed to the project-billing administrator who includes them in the subsidiary billing netting process. Subsidiaries not included in the netting process remit payment via their accounts payable process.

Exception Billing

The current allocation process allows for *temporary* alteration in the allocation of designated expenses to reflect a *temporary* change in departmental activities. When it is determined that the allocation methodology established for a specific RC is not appropriate for the designated expenses, special coding can be used to act as an "allocation override".

Exception billing occurs within the general services allocation system. The creation of journal entries, the billing process and payment procedures are the same as those discussed in that section.

CURRENT ALLOCATION METHODOLOGY

The current allocation process, can be broken into two sub-processes, the allocation of overhead to projects and to departmental cost pools and the allocation of the departmental cost pools to the respective subsidiary. A company-composite corporate overhead rate is developed each month. A monthly departmental overhead rate is also developed for each BSHQ department. The corporate overhead rate is applied to cost pool and project salary and wage dollars. The departmental overhead rates are only applied to projects and cost pool salary and wage dollars directly related to the respective department. The departmental cost pools represent functional activities engaged in by BSHQ. These cost pools are allocated to the respective subsidiary based on a variety of cost causative allocation methodologies.

THE BASC PROCESS

General Ledger, Account Payable or Project Accounting?

In the future operating environment, BSHQ subsidiary projects and other affiliate projects will be captured and billed by project accounting. Flow-through expenses for companies within the BASC, which includes BSHQ, will be directly coded to the appropriate subsidiary on the voucher and thus the appropriate journal entries will be generated through the accounts payable/GL integrated process. For those companies outside the BASC, the accounts payable/GL integrated process will book the appropriate journal entries to a balancing entity established in the BASC for the non-BASC serviced company (faux company). A report will then be sent to the non-BASC serviced company detailing the entry. It will be the responsibility of the non-BASC serviced company to make the appropriate journal entries in their GL system.

It is General Accounting's responsibility to design a process that addresses BSHQ general services costs, and retained costs. Any costs requiring exception billing should be handled through project accounting.

General Ledger/Project Accounting Integration

Journal entries for the BSHQ subsidiary projects and other affiliate projects will be accounted for by Project Accounting in the same manner as similar project accounting transactions using the standard project accounting/GL system interface. Accounting transactions are categorized as S&W, directly allocable, retained, labor overhead or corporate overhead. Overhead rates are developed based on calculating labor and corporate rates based on prior 12-month activity divided by the appropriate labor and corporate overhead basis. This rate is monitored and the labor and corporate overhead rates are adjusted as determined appropriate. Note that the rates used by general service costs take into account labor and corporate overhead transactions to ensure that expenses are not double.

Corporate Service Allocation

The allocation process will be designed in compliance with the FCC's joint costing and affiliated transaction requirements. The FCC requires that the following hierarchy be adhered to in assigning costs to the subsidiaries:

1. Directly assignable costs are the costs of resources that are used exclusively for a specific activity. The costs of resources used exclusively to provide subsidiary services should be directly assigned to the subsidiary.
2. Common costs are the costs of resources that cannot be directly assigned to a specific activity. These cost should be allocated on a cost causative linkage. The following hierarchy should be used when allocating common costs: direct attribution, an indirect surrogate measure of cost causation or a general allocation rate.

As previously discussed, BSHQ costs considered to be directly assignable will be captured and billed by project accounting or by directly coding expenses to the appropriate subsidiary on expense vouchers. Therefore, with the exception of generating and applying an overhead rate to the non-flow through BSHQ projects and determining how to omit project billed costs from the allocated cost pools, directly assignable costs do not need to be addressed in the GL portion of the BSHQ allocation process.

The BASC corporate services allocation and project accounting processes will assign common costs to the subsidiaries in a three stepped process. The labor-related rate will first be applied to project, retained, and allocated salary and wage dollars. Secondly, the corporate overhead rate will be applied to all project, retained and allocated costs (cost pools) -- including salary and wage, other directly allocated or project coded costs, and the labor-related loading from step one. Finally, the cost pools and the respective overhead will be allocated to the subsidiaries using the assigned methodology or billed based on project set-up information.

Attributable allocations will continue to be driven based on functional groupings at the tracking unit¹ level. Allocation methodologies will be limited to those determined necessary to meet the FCC's requirements and BellSouth operational needs. Homogeneous tracking units (i.e. within the same department) to which the same allocation methodology can be used to pass the costs to the respective subsidiary will be grouped. Attachment 1 summarizes the current cost pools and allocation methodologies, as well as the BASC cost pools and allocation methodologies. Current "billing" line item detail is summarized in the left most column of the attachment. As evidenced, the BASC will be able to provide the same level of line item detail the subsidiaries receive today.

To facilitate this process, BSHQ expense and other expense accounts, excluding interest expense, investment amortization, gains/losses, extraordinary or delayed items, and state and federal income tax, will be segregated into five groups:

- (1) labor-related overhead (LOH),
- (2) corporate overhead (COH),
- (3) salary and wages (S&W),
- (4) non-S&W costs to be allocated or
- (5) project billed (Allocated or Direct) or retained (Retained).

As illustrated on the Account Classification schedule, the account classification differs between the GL allocation process and the project accounting process. This will be further addressed in a moment. In addition, all BSHQ Tracking Unit values will be designated as a child value of either a functional cost pool, overhead or retained cost pool (see Parent Summary Schedule for child – parent rollups.) Note that the overhead tracking parent, 00OVHD, overrides the S&W and Allocated account designations. For example, expenses booked to account 62115, Management Salaries – Bonus & Awards (an Allocated account) and to the 000760 - AVP Corporate Support tracking unit (an overhead tracking unit) will be treated as overhead expense. Also note, expenses booked to the retained

¹ A tracking unit is a segment in the BASC general ledger accounting flexfield that will replace the RCs used today, however; there may not be a one-to-one relationship between the tracking unit and RC values.

tracking unit parent 00RETN are all retained, except the accounts designated as LOH or COH. LOH and COH retained expenses are included in the overhead calculation.

Upon initial conversion to the BASC environment, cost pools will be allocated a month in arrears. This will help facilitate the coordination of journal entries between companies serviced by the BASC and companies outside the BASC, and will allow the allocations to be run outside of the close process. At such a time when the BASC reaches a steady state operating environment, i.e. the in-scope companies are serviced by the BASC, this decision may be reconsidered since most of the companies billed by BSHQ, if not all, will be serviced by the BASC.

BSHQ costs will be allocated to the designated Oracle GL balancing entity for each subsidiary. In other words, if a subsidiary has established multiple balancing entities, all BSHQ allocation journal entries will be made to one balancing entity. In addition, as discussed earlier a faux balancing entity will be established within the BASC GL for each non-BASC company. The faux balancing entity will be used to capture the respective non-BASC company allocated expenses. After the allocations have been processed, a report will be generated and sent to the operating companies, which summarizes the allocated expenses by cost pool. As with the flow-through billing discussed above, non-BASC companies must then make the appropriate journal entries in their GL.

BASC PROCESS DETAIL

Calculating Overhead Rate and Applying Overhead

Before BSHQ allocations can be processed in Oracle GL and BSHQ projects are established, LOH and COH rates must be developed. The LOH and COH rates applied in the allocation and project accounting process will differ; therefore, 4 rates must be developed – two LOH rates and two COH rates. Project accounting will include bonuses in the LOH rate. However, since bonuses are recorded at a tracking unit level, they will be directly allocated in Oracle GL. In addition, project accounting will include other departmental type overhead costs in the COH rate. Again, since these costs are recorded at a tracking unit level, they will be allocated in Oracle GL. Allocation and project account classifications are summarized on the Account Classification schedule. The Labor and Corporate Overhead Schedules detail (see reporting notebook) the overhead rate calculations.

Initially, standard labor-related and corporate overhead rates will be developed using a previous twelve-month period. The applicable standard overhead rates will be applied to all subsidiary and other affiliate projects except other affiliate projects to which BSHQ is not legally allowed to apply overhead for billing purposes. Project Accounting simply will not burden these projects effectively retaining the related overhead cost on BSHQ's books. In addition, the applicable rates will be applied to the attributable expenses allocated to each subsidiary and to retained expenses.

Project Accounting will monitor the rates, and rate modifications will be made when the difference between the actual and applied rates is outside an acceptable tolerance range. Project Accounting will notify General Accounting when any rate changes are considered necessary so that appropriate changes can also be made in GL.

On an on-going basis, it is expected that each year after the September close, new rates will be developed based on the previous nine months of actual financial data and estimates for October, November and December financial data. If the new rates are significantly different from the previously applied rates, the new rates will be implemented in October. However, if the rates are not significantly different, Project Accounting and the BSHQ Allocation Process will use the new rate for the subsequent year and the new rate will be applied to January's actual financial data.

Allocation Methodologies Statistics

The BSHQ Allocation Process will use standard rates to allocate the cost pools to the respective subsidiaries. The data necessary to capture the financial information will be input into Oracle GL statistical accounts.

For example, the allocation process will use a balancing entity parent value to identify the affiliates to which the cost pools will be allocated when the Net Operating Expense (NOE) methodologies are used. NOE for each affiliate will be input into statistical account 90025 by balancing entity. The allocation formula for the Strategic Management cost pool (which is allocated using only the Communications Group NOE) will utilize statistics recorded to account 90025. Stats will only be pulled for the Communication Group balancing entity based on a balancing parent. Using the intersection account 90025 and the Communication Group balancing entity parent, Oracle Mass Allocations will calculate the allocation rate for each affiliate based on the affiliate's respective percentage of the total Communications Group NOE only.

The following allocation methodologies, as well as the applicable GL statistical accounts, will be used in the BSHQ allocation process:

- Total Subsidiary Headcount – 90005
- Management Headcount – 90010
- Net Operating Expense (NOE) – 90025
 - NOE all Companies
 - NOE excluding BellSouth Telecommunications (BST) & BST Subsidiaries
 - NOE excluding BST & BellSouth Business Systems (BBS)
 - NOE all Companies Excluding BellSouth International (BSI)
- Marketing Expense (Marketing Allocator) – 90030
- Capital – 90035
- Percent of Business Services Expense (Business Services Allocator) – 90040
- Percent of total Headquarters' Expense (Headquarters' Allocator) – 90045
- Tax – Regulatory (cost study) – 90060
- Tax – Wireless (cost study) – 90065
- Income Tax (cost study) – 90070

- State PAC Allocator – 90075
- Federal PAC Allocator - 90080

Data initially input into the statistical accounts and used by Oracle Mass Allocations in calculating the standard allocation rates will be developed using data for current three month average or April 2000 data depending on the relevance of the data for allocation purposes. General Accounting must develop a process for monitoring the statistical data and making modifications to the statistical account amounts for significant changes.² Amounts captured in statistical accounts can be adjusted, for existing subsidiaries, simply by making a journal entry to the statistical account in the amount of the increase or decrease. However, please note that new statistical data must be input each January as Oracle GL uses current year data in the Mass Allocation formulas. In addition, when a new company is added mid-year or a significant change in a currently billed company's operational status, General Accounting must coordinate capturing statistical data used in the allocation process for the new company. (Each time a new company is added, the "standard rates" used to allocate costs to the other subsidiaries will be driven downwards.)

On an on-going basis, it is expected that each year after the September close, statistical account data will be updated based on the previous nine months of actual financial data and estimates for October, November and December financial data (based on budgets). If the statistical data is significantly different from the current statistical data, the statistical accounts will be updated in October. However, if the stats are not significantly different the corporate accountant will utilize the Jan 1 – Sept 30 with Oct, Nov & Dec budgeted data for the subsequent year statistics. This process will facilitate setting budgets and reduce the time spent gathering statistical data by moving toward a standard rate type process.

Statistical data should be input for each affiliate, including BSHQ. BSHQ must allocate to itself a proportion of each cost pool relative to costs BSHQ chooses to retain, such as corporate development, board of director's expense, etc. Sources for the statistical data are as follows:

Total Affiliate Headcount (90005) and Management Headcount (90010) – Total and management headcount can be obtained from the Human Resources HF1-2 Report. In addition, a study must be done to determine BSHQ total and management headcount directly related to retained expense. End-of-period December data (adjusted for known changes) should be used each year. In addition, as organizations shift between companies, as companies make significant headcount changes or as new companies are added, the statistical account data should be updated. The HF1-2 report should be reviewed monthly to see if there are any significant changes. Capturing significant changes in a timely manner will eliminate the need for true up entries.

² All adjusting journal entries should be made in or before October of each year. Doing so will enable all chaining impacts to BST to be captured at BST in the current business year. This is a Federal Communications Commission (FCC) requirement.

NOE (90025) and Marketing Expense (90030) – NOE is calculated by taking the affiliate's total expenses less any cost of good sold. NOE and marketing expenses should be obtained from Hyperion consolidated data or directly from GL if it is a non-consolidated affiliate. The exception being BST and its subsidiaries. Currently, BBS, BellSouth Communications Systems (BCS) and BellSouth Public Communications (BSPC) total marketing costs from the BBS Holding Market Report are used.³ BST marketing costs are obtained from the BST Marketing Allocator Information Report. The "Marketing Billed BST" from the BBS Holding Market Report is subtracted from the BST marketing cost to get the net BST marketing cost. As there is no retained marketing expense at BSHQ there will be no marketing expense input for BSHQ. However, retained NOE must be determined and input for BSHQ.

Headquarters Allocator (90045) – The headquarters allocator must be determined by General Accounting each year. It should represent each affiliates percentage of total, annual, BSHQ allocated costs for the year it is to be applied.

Capital (90035) – Capital should be obtained from Hyperion consolidated data or directly from GL if it is a non-consolidated affiliate. For allocation purposes, capital is currently calculated as follows: Total Debt Maturing in One Year + Total Long Term Debt + Unamortized Investment Tax Credits + Common Stock + Paid-in Capital + Ending Retained Earnings + Cumulative Foreign Currency Adjustment. In addition, the Hyperion results are adjusted for consolidated BSE and consolidated BST capital, which is prorated back to the subsidiaries. As there is no retained capital at BSHQ, there will be no capital input for BSHQ.

Business Services Allocator (90040) – The Business Services Allocator is determined though a cost study which represents BSHQ's BellSouth Business Headquarters support. General Accounting assisted by the Business Services Headquarters organization should determine the appropriate factors each year. Currently, the allocation is 87.5% BBS, 8.5% BellSouth Communications Systems (BCS) and 4% MNS. Statistical data captured in this account should only need modification should a newly formed company begin receiving a portion of the expense or if there are other significant business changes.

Tax – Regulatory (90060) – The tax department performs a cost study for its employees on an annual basis. All employees fit into one of four allocators. The Tax – Regulatory allocator is one of the four. This statistic is used to allocate costs to the regulatory companies these employees perform work for during the year.

Tax – Wireless (90065) – The tax department performs a cost study for its employees on an annual basis. All employees fit into one of four allocators. The Tax – Wireless allocator is one of the four. This statistic is used to allocate costs to the wireless companies these employees perform work for during the year.

³ Rebecca Dowdy is the current contact for this report.

Income Tax (90070) – The tax department must do an annual cost study that indicates the percentage of total income tax services costs provided to each affiliate. The percentage results of this study will be input into the Oracle GL statistical account. This account will be used to allocate the income tax cost pool, which includes all income tax related expense that is not direct project billed. Non-income tax expense will be allocated based on NOE. Statistical data captured in this account should only need modification should a newly formed company begin receiving a portion of the expense or if there are other significant business changes.

Federal Pac (90075) and State Pac (90080) – Both of these allocators will be calculated based on the number of participants in each of the Pacs (state and federal). Information will be provided by the federal pac administrator and the state pac administrator. Data will be updated annually at the beginning of each PAC contribution period.

For regulatory and audit purposes, all supporting detail for the standard statistical data must be maintained.

Expense Reconciliation

General Accounting will be responsible for developing a report that reconciles the Project Billed, Retained and Allocated costs to the total BSHQ expenses for the period. This report should be run and reviewed before each month's allocation is billed to the appropriate affiliate. Significant monthly / YTD reconciling differences will be investigated and the corporate accountant will take the appropriate action prior to finalizing and billing the current month's expense allocation to the appropriate subsidiary

Retained Costs

There will be three methods to retain costs in the future. Firstly, costs will be retained for specifically identified tracking units or accounts where 100% of the non-project costs charged to these tracking units or accounts will be retained by BSHQ. Charges to these tracking units and accounts will be retained simply by not applying a cost causative allocation methodology to the retained tracking units and by excluding expenses charged to retained accounts from all allocated cost pools. The secondly, project accounting will establish a project that will retaining costs on BSHQ's books. The BSHQ expense allocation formulas exclude all project billed and retained project transactions from the costs pools to be allocated. Overhead expenses associated with retained costs will also be retained on BSHQ's books. Thirdly, specific accounts will be retained. Expense such as M&A transactions or interest expense will be retained on corporate's books.

The value maintenance administrator should not designate a tracking unit or project as retained without first receiving approval from the BSHQ Business and Financial Planning department Executive Director.

Exception Billing

Process and system changes from the CARS process to the new BSHQ expense allocation process will eliminate the need for exception billing. The cost

causative allocation methodology applied to each business unit will be considered appropriate, and as a rule will not be adjusted on an exception basis. Cost causative methodologies applied to each tracking unit will be reviewed and updated annually (more often if warranted.) If a sub-pool of costs should be directed toward a small group of affiliates or an individual affiliate, then a project should be established and the costs should be project billed.

BASC IMPLEMENTATION REQUIREMENTS

Account Segment Value Requirements

As GL accounting flexfield values are added, deleted or changed, it will be necessary to update the applicable parent values. Unique parent values will be established to capture overhead costs, retained costs and costs assigned to each cost causative methodology. In addition, other parent values will be used to summarize costs as needed to calculate overhead and process the allocations.

As mentioned previously, it is also imperative that project costs be uniquely identified so that they can be excluded from the allocation process. To achieve this, Project Accounting will populate the affiliate code segment with the appropriate project indicator:

- A*** Intercompany Billing Projects
- B*** Tracking Only Projects
- C*** Construction – in Progress Projects
- D*** Tracking Retained Projects.

This will result in project accounting cost being identified by type in the GL, allowing for identification and exclusion of the appropriate costs from the GL Mass Allocation process.

State Pac, Federal Pac and Lobbying Expenses

State pac, federal pac and lobbying expenses are identified by a project code. These expenses are summarized by activity code (versus tracking unit) and allocated to BellSouth subsidiaries. Each cost pool is billed based on its own statistics. The exception to the cost pool allocation method described relates to the state pac allocation method. TN and KY state pac expenses will be project coded and will be billed through Project Accounting.

SUMMARY

The BASC process detailed herein, significantly simplifies the current process for allocating BSHQ costs to the subsidiaries while still meeting the FCC's joint costing and affiliated transactions requirements. There are over 200 allocation variations (FRNs) available in the current BSHQ allocation system, and over 100 of these are used today. In addition, there are twenty overhead rates derived each month. To achieve this level of detail, processing is done outside the current GL application.

There are currently fourteen BASC cost causative allocation. Most of the FRN variations used today are based on seven core methodologies facilitating

conversion to the sixteen methods without inappropriate impacts on the apportionment. The major differences between the current BSHQ process and the BASC process:

- (1) the cost pools are expected to be at a higher level of detail,
- (2) the number of allocation methodologies are expected to be reduced, and
- (3) the application of overhead is to be based on company-composite BSHQ expenses.

Utilizing this simplified approach allows general service corporate expense allocations to be processed using Oracle Mass Allocation functionality, which is standard functionality provided within the Oracle GL module. This requires an Oracle GL Mass Allocation to apply the LOH rate and one to apply the COH rate to the attributable and retained costs. In addition, a Mass Allocation for each defined cost pool is required. Thus, greatly reducing the processing requirements from today's allocation process. Not only is the allocation methodology being simplified, but the direct costs are being removed from the process altogether. This will alleviate the BASC from replicating the detailed processing occurring today or from having to modify the current system to accommodate the new flexfield structure and value sets. In addition, interfaces will not need to be written between the existing system and the BASC GL. Finally, this approach should result in a reduced need for specialized employee resources.